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PRINCIPLES

OF

POLITICAL ECONOMY

BY

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PROFESSOR OF POLITICAL ECONOMY IN THE UNIVERSITY OF EDINBURGH; SOMETIME EXAMINER IN THE UNIVERSITIES OF CAMBRIDGE, LONDON, AND VICTORIA

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PREFACE.

WITH the issue of this concluding volume it may be well to state briefly the scope and purpose of the work. Since the publication of J. S. Mill's *Principles* the application of the historical and comparative methods on the one side and on the other mathematical analysis have given a broader and also a more accurate meaning to general economic conceptions and economic laws, whilst in every department an immense amount of labour has been devoted to specialisation. The present work is intended to give a survey of economic principles in the light of these advances and to provide an introduction to the more special treatment of pure theory, economic history, and the economic side of social questions. The work, however, is not a mere compilation, and there are parts which may lay claim to originality, as, for example, in the present volume the chapters on Relative Prices, Rents, Profits and Wages, and the relations of Public Expenditure to Taxation.

In style and form the literary method has been adopted, and wherever possible purely technical language has been avoided; but I have never attempted to attain simplicity by avoiding difficulties, and I have given my own opinion on disputed questions.

As intimated at the outset, the subject has been treated throughout from the positive standpoint; but as this purely scientific attitude is liable to be misunderstood, I have indicated in the final chapter my own views of the relations of political economy to morality and religion.

It is scarcely necessary to state that the various chapters must be regarded as parts of a whole and not as a

number of separate treatises. It is clearly impossible to condense into chapters such vast subjects as Economic Progress, Wages and Progress, Free Trade and Protection, Local Finance, Colonial Policy, Public Debts, etc. One of the greatest difficulties has been to preserve the due sense of proportion.

I have indicated in the proper places my obligations to particular books and authors, but I ought to mention specially the great works of Thorold Rogers and Vicomte D'Avenel on the history of prices, and of Dr. Cunningham and Professor Ashley on general economic history; the standard books of Professors Bastable and Seligman, and the original and ingenious writings of Professor Edgeworth, on Public Finance and Taxation; and the valuable and suggestive works of Mr. and Mrs. Webb on Trade Unions and Industrial Democracy. Dr. Keynes has looked over all the proofs and made valuable suggestions throughout, and Professor Bastable and Mr. C. S. Devas have performed the same friendly deed for portions of the work. For the Index I am indebted to Mr. A. B. Clark, M.A., my assistant in the University.

In conclusion I must again express my regret that the completion of the work should have been so long delayed through unavoidable causes, — at first illness, and later the increased pressure of official duties, — and now I will make an end of apologies in the words of the author of the Book of Maccabees: "If I have done well, and as is fitting the story, it is that which I desired; but if slenderly and meanly, it is that which I could attain unto."

J. SHIELD NICHOLSON.

UNIVERSITY OF EDINBURGH,
November, 1901.

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BOOK IV.

ECONOMIC PROGRESS.

CHAPTER I.

THE NATURE AND THE MEASUREMENT OF ECONOMIC PROGRESS.

§ 1. *The Idea of Progress in General.* Before entering on the examination of the nature and tests of economic progress, it seems desirable to state explicitly that, however wide be the interpretation given to the term "economic," it cannot embrace the idea of progress in general whether as applied to the individual or the nation. How large that idea is, how variable from age to age, and how related to the great ideas of humanity and freedom, it is the business of the philosophy of history to gather from the evidences of literature and art, law and custom, morality and religion, and the other components of civilisation.[1] Perhaps the most remarkable result of such a wide survey is the discovery that in the past the idea of progress has generally fallen short of the actual reality, and the comprehension of the meaning has generally lagged behind the making of history. Even as regards China we are told that the actual development and filiation of thought is scarcely less traceable in history and literature than in the case of Greece itself. But in place of the idea of progress, among the Chinese as among the Egyptians, Babylonians, and Hindus, the theory of cosmical and human cycles appears in various forms. The Jews also seem to have attained to no conscious apprehension of the idea of progress, and there is no distinct enunciation of that idea in the Old Testament. The Greeks and Romans conceived of the course of history, not only, as is commonly supposed, as a downward movement of the ages indicated by the nobler and baser

[1] See Professor Flint's *Philosophy of History*, pp. 88–136.

metals from gold to iron, but also conceived of it sometimes as a cycle and sometimes as a progress; and the classical idea of progress when it comes to the surface is rather poetical and philosophical than historical in the sense of being founded on a wide induction of facts. "The teaching of Christ" — such is the judgment of the philosophical theologian — "applied directly only to man in his moral and religious relations, and did not contain even in germ a doctrine of his industrial, scientific, æsthetic, or political development, although not only consistent with, but calculated to lead up to, the true doctrine thereof."[1] And by way of commentary it may be added that the history of the mediæval Church is one long contest or series of contests between the literal interpretation of the teaching of the Sermon on the Mount and the strivings of the natural man for wealth and political power. "The general conditions of life and thought in the Middle Ages," says Professor Flint, "were extremely unfavourable to the growth and spread of the idea of progress"; and yet in the actual history of mediæval England we find the legislation and the cathedrals of Edward I., the science of Roger Bacon, the poetry of Chaucer, the theology of Wiclif, and a mass of other evidences of original power, and all that we are entitled to say seems to be that, as in the earlier ages, the idea of progress again fell short of the reality. From the sixteenth century onward we find a number of attempts to express the general idea of progress — sometimes involving the perfection of God, sometimes the perfectibility of man — and culminating in the nineteenth century in the theory of evolution. How far that theory is of service in explaining and estimating economic progress will be considered later; in the meantime enough has been said to justify the position that economic progress is not coextensive with, or deducible from, any general idea of progress.

That idea is still shadowy and vacillating. To the

[1] Flint, *op. cit.*, pp. 96, 97.

ordinary mind not firmly fastened to the faith of religion or to the transcendental reason that is akin to such faith, the long procession of empires that pass over the world is appalling; and when the habit of analysis forces the spectator to break up the life of every nation into multitudes of human beings, — of living spirits, — the effect is overwhelming: the individual becomes a speck and his life a moment.

And yet the living representative of Kant, M. Renouvier,[1] still maintains that the secret of progress is to be found in the exercise of the rational freedom of individuals, and that the *ethic* races of mankind — akin in moral ideas — are of far greater significance in the unfolding of history than the merely *ethnic* races determined largely by physical conditions. As already explained, the estimation and comparison of standards and ideals of morality are excluded from the plan of this work; but it seems necessary to guard against the assumption that economic progress is naturally associated with moral degradation. The brilliant and suggestive work of M. Loria[2] on the economic bases of the social constitution has given new life to the materialistic interpretation of history. His leading contention is that all the moralities, religions, and policies of the past are only connective institutions by which capitalism has enslaved and bound in fetters the societies of mankind. "In effect," he writes,[3] "whoever is penetrated with this fundamental truth that capitalistic property or the suppression of free land is not a natural and spontaneous fact, but the violation of laws human and divine — the impossible erected into a system — will understand that to guarantee the persistence of this absurd and contradictory system it is necessary to appeal to all the passions, to all the sentiments, to corrupt their purest sources and to metamorphose them into the docile instruments of this monstrous engine — capital-

[1] *Cf.* Flint, *op. cit.*, p. 666.

[2] *Les Bases Économiques de la Constitution Sociale* (Paris, 1893).

[3] p. 424.

ism. . . ." It is to be observed, however, that M. Loria himself in his forecast of future progress looks forward to a golden age of simple morality. "In the economy of equality and association the social organism in perfect equilibrium by its own virtue will have no need to seek the guarantee of its persistence in the possession of the most diverse manifestations of human activity, which will henceforth soon resume their natural and normal development." Thus M. Loria as regards the future is as extremely idealist as with reference to the past he is extremely materialist — and in my judgment is wrong in both extremes. Certainly as regards historical progress the connective institutions of society are not to be summarised as examples of conscious tyrannical chicanery; the eyes of children, if there is any truth in the doctrine of heredity, declare that more has gone to the making of them than ages of corruption and suffering.

If, however, we reject the morbid simplicity of M. Loria, with his exaggerated consequences of the suppression of free land and of the dominance of the love of money, we cannot accept as much nearer the truth the optimistic idea that progress is necessary and continuous.

It is difficult to trace any continuity in general progress or even to discover the conditions favourable to the progress of humanity as a whole. The civilisation of Egypt under the Pharaohs endured four thousand years, but it made less impression on history than the single generation of Pericles. "Progress," says M. Renouvier, "is possible for individuals and nations in all spheres of human life and activity. And it is not only possible, but the analysis of facts shows that it has actually taken place during certain periods in the history of many peoples. No facts warrant us, however, to ascribe to it universality, continuity, or necessity. Deterioration has been as prevalent as amelioration. There has not been anywhere or in any respect uninterrupted progress. If we compare mediæval Europe with ancient Greece and Rome in their prime, and

apply proper criticism in an impartial manner, the former must be acknowledged to have been on a lower intellectual and moral level. If we examine into the history even of such a phenomenon as slavery, it will be found that for long periods and over wide spaces it was not liberty which gained ground. Europe is no more entitled to believe herself at present secure against future slow decadence or rapid collapse than Asia was when in her glory. Those who have discoursed on progress have generally erred as to its point of departure. They have supposed it to have started from conditions which can only have been gradually produced. They have imagined a perfectible brutality for which there is no evidence to be found in history. They have not deemed it necessary to inquire by what marks societies are to be ranked as superior or inferior to others. They have not seriously endeavoured to determine what constitutes progress, and have consequently failed to see how inseparable it is from morality, and how necessary it must be to the work of individuals and societies themselves. . . ."

It is, on this view, in the exercise of rational freedom that societies as well as individuals have risen or sunk, elevated or debased themselves. And as already indicated, and as will appear more fully in the sequel, the dominating force in economic progress is the exercise of the rational freedom of individuals, and therein is to be sought — it seems to the present writer — the reconciliation of economic with moral ideals. At present, however, all that is contended for is that economic progress demands a separate analysis; in the cultivation of the sciences as in that of land the method of large open fields has given way to enclosures and specialisation.

§ 2. *The Nature of Economic Progress.* The simplest and still the most common idea of economic progress is quantitative. "All the nations," Mill naïvely remarks, "which we are accustomed to call civilised increase gradually in production and population." Even as regards the

progress of production, however, we cannot get very far with the simple rules of political arithmetic. We may, indeed, measure the increase of national wealth in terms of the monetary standard, and for certain purposes such measurement is sufficiently accurate. In the United Kingdom, for example, a penny in the pound of income tax has for some years given an increasing return, and the natural explanation or deduction is that there is a corresponding increase in the wealth of the nation. This estimate is confirmed by the yield of other taxes and by the monetary statistics of trade and consumption.

In the reference to such statements, however, we naturally take account of quantities of wealth as well as values, and the consideration of quantities logically leads to an estimation of qualities. Especially in comparing relatively distant periods it is obviously necessary, not only to allow for variations in the value of the monetary standard, but to give a fuller meaning to the money valuations by referring to the quantities and qualities of the forms of wealth. Quantities remaining the same, a large advance (or retrogression) may be estimated in respect of improvements (or the reverse) in qualities. The youngest of the golden ages, and perhaps the only one that still claims to be considered as historical, viz., the fifteenth century in England, has suffered grievously under the test of this qualitative method, and its rude abundance has become very rude indeed. On the other hand, the material prosperity of the nineteenth century has been proportionately elevated by similar allowances for quality.

The improvement in the qualities of old things again leads to the consideration of substitutes and additions, and the national valuation in progressive societies is again increased by a long list of scientific discoveries.

The idea of economic progress, however, even in its simplest form, is not exhausted by the increased improvement and discovery of the various forms of material wealth.

Side by side with the progress of wealth we must set the progress of population. Here, again, the simplest and most common method of estimation is quantitative. "Though North America," said Adam Smith, "is not yet so rich as England, it is much more thriving, and advancing with much greater rapidity to the further acquisition of riches. The most decisive mark of the prosperity of any country is the increase in the number of its inhabitants." A century of Malthus and half a century of Mill have not sufficed to discredit altogether the decisiveness of this mark even with persons of culture, and still less with the masses of the people. The arrest of the growth of the population of France is regarded with dread, whilst the enormous expansion of the United States is viewed with patriarchal pride, by the respective peoples.

At the same time, however, the simple numerical test of the progress of population needs even more than that of opulence a qualitative supplement, though, it is true, the difficulties of such a modification are in this case much greater.

At the present time, the most fashionable terminology for the expression of social and economic progress is that derived from the theory of evolution. I do not deny that, in some cases, this terminology may be useful, or that the analogies with biological development may be suggestive[1]; but we are not within sight at present of any deduction of the principles of economic progress from a general evolution of humanity. There is, for example, no stronger opponent of the self-called evolutionary socialists than Mr. Herbert Spencer. We may indeed speak of the differentiation of division of labour and of the integration of coöperation, of the tendency to variation in industrial processes, of the survival of the fittest in schemes of distribution; and in every department of economics we may

[1] Pareto has worked out the theory of economic progress in terms of evolution in an interesting way. *Cours d'Économie Politique*, Vol. II., Livre III.

discover examples of adaptation to the environment and of reversions to atavism; but we cannot discover the nature of industrial progress by the simple adoption of the language of evolution; we might as well expect to discover the history of China by a translation of the history of England into Chinese.

Every special science needs its own special evidence, and the natural evolution of the nineteenth century is no better adapted to provide substitutes for induction than was the natural theology of the eighteenth.[1]

Accordingly, in estimating the economic progress of population as regards quality, we shall find it necessary to apply different tests; and one of these tests is to be found in the money valuation of the people and its component classes.

§ 3. *On the Progress of Population in Terms of Money.* The estimation in terms of money of the qualities of persons, classes, and nations, as I have shown elsewhere,[2] is neither new nor unscientific.

The principle of compensation for accidents and injuries to persons was fully recognised in Saxon times. Injuries and assaults were dealt with on a minute scale of fixed compensations, the amount payable ranging according to the rank of the persons concerned. *Wer* was the value set on a man's life, and the amount of a man's own *wer* was often the measure of the fine to be paid for his offences against public order. Contumelious outrage (*e.g.*, binding a free man or shaving his head in derision) was visited with heavier fines than any but the gravest wounds. It is most interesting to note, that in the case of harm ensuing even by pure accident, the actor was liable, however innocent his intention, and the question of negligence was not considered at all. *Wer unwillig gethan*

[1] Cf. *Historical Progress and Ideal Socialism*, for further treatment of this argument.

[2] *Strikes and Social Problems*, p. 97, "Essay on the Living Capital of the United Kingdom."

musz willig zahlen: such was the principle of all old Germanic laws.[1] The recent British legislation on compensation for accidents has reaffirmed this principle which depends for its administration on money valuations of persons and parts of them; and the common law has still to put a money value on shocks to the system through accidents on railways and shocks to the feelings through breaches of marriage vows.

Money valuations of economic persons may be estimated on two principles, viz., cost of production and earning capacity. The production and education of children up to maturity or independence consume a large part of the resources of their parents, which otherwise might have been converted into material capital. It is of course true that the value of education (as it appears in the finished child) cannot be measured simply by the cost, but in general as in material things (*ceteris paribus*) the greater the cost so much greater the value. And in a survey of the economic progress of the nation one decisive mark of an improvement in quality is an increase in the cost of education. The prohibition of work for wages under a certain age increases the expense of rearing the family of the working-man, but the increase of cost improves the value of the children. From the national point of view, the fact that school fees are paid by the rate-payers makes no difference to the real cost directly, and indirectly it may even increase it, that is to say, education supplied by the State may cost more than that supplied by the parents. The history of the effects of machinery and of the factory system is full of examples of the degradation of child labour, and that degradation may be roughly measured in the lessened net cost of education and maintenance.

The element of time is of still greater importance in waiting for the results of living than of dead capital, and so also is the element of risk.

[1] Pollock and Maitland, *History of English Law*, Vol. I., p. 31.

The particular parent is by no means sure that he will benefit by giving a long and expensive education to his particular child, whilst his immediate share in the child's earnings is attractive to his greed. But to the nation at large an improvement in the quality of the people — such an improvement as involves heavy expenditure — is not counterbalanced by these drawbacks. A nation can afford to wait, and the risk of emigration is small, and smaller still the more extensive the empire.

It is, of course, possible that in education, as in other forms of production, there may be needless waste; but, after making allowances of this kind, it is generally true that education that costs little to the nation is generally worth little, and conversely of great cost and great worth.

The value of people and peoples may, however, be estimated from the point of view of earning capacity. We are all familiar with the distinction between skilled and unskilled labour, and it needs little reflection or observation to discover that in both groups there are a multitude of subdivisions. These various subdivisions have different degrees of earning capacity. And again, one of the decisive marks of economic progress is found in the increase of the numbers of the classes with higher earnings relatively to those with lower earnings.

Sir Robert Giffen's calculations for a recent and notable half century have popularised this method of estimating the progress of the working-classes.[1]

Before going further with this explanation of the nature of economic progress, it may be well to set forth the results already obtained. The economic progress of a nation may be estimated, first, by the increase in its wealth, measured in terms of money — allowance being made for any variations in the standard, which again involves a series of com-

[1] "Progress of the Working Classes in the Last Half Century," *Essays in Finance*, Second Series, p. 365.

plex problems;[1] secondly, we may take account of the increase of the population; thirdly, combining these two methods, we may roughly estimate progress by the increase per head in accumulated wealth and in income; and fourthly, we may consider the money values of the whole nation, and of its various component classes, either on the basis of cost or of earning capacity.

The nature, however, of economic progress can be represented only very imperfectly by the application of these monetary methods of valuation. We must next endeavour to pass behind the money cost and the money earnings to the real cost and the real earnings, and for this purpose the general conceptions of economic Utility and Disutility may be first adopted.

§ 4. *Progress of Population in Terms of Utility and Disutility.* Even from the point of view of the individual Epicurean the money value of his wealth is of importance only so far as it indicates its utility, including, of course, on the one hand, the satisfaction and pride in relatively large possessions, and on the other the sense of increased power of well-doing. Money is only a measure of exchange value, and a rise or fall in the exchange value of a man's wealth may or may not correspond to a rise or fall in its utility to him. If a man falls blind his pictures to him lose their utility, though their prices are unaffected; and if he loses his strength beyond a certain point, the burden of managing his wealth may exceed the total satisfaction which he derives from it. Still more obviously the disutility of the acquisition may exceed the utility of the fruition of precious things. Such, expressed in more familiar language, have always been the commonplaces of poetry, philosophy, and proverbial wisdom.

But, on the other hand, under ordinary conditions, an increase of wealth (measured in money) generally means also an increase in utility or happiness to the individual. We suppose that no one will labour to acquire wealth be-

[1] *Cf.* Book III., Chs. XI.–XVII.

yond the point at which the disutility or real cost of the labour to him seems greater than the utility of the corresponding reward.

There may be mistakes of judgment, but the general rule applies to any individual whose freedom of choice is unfettered. Thus to the free individual an increase of money generally means an increase of utility (even if he has to earn the money). The utility, moreover, of a free man's wealth may rise, whilst its money value remains constant, or even falls. Any improvement in the physical, moral, or intellectual condition of the man may raise the utility of his possessions. Similarly any improvement in the conditions of acquisition may increase the total positive utility by diminishing the disutility involved.

That utility has only a meaning with reference to the feelings of human beings, is still too often overlooked. For brevity and convenience we speak of utilities fixed and embodied in material things, but so far they are at most potential utilities, and can only be realised by sentient individuals. Mr. Ruskin, in his tirades against railways, forgets that lakes and mountains must be seen to be appreciated.

When we pass from the individual to the nation, the old distinction between value and riches, or the modern distinction between price and total utility, becomes of fundamental importance. Under certain conditions, it is true that a rise in the money wealth of a nation may be held to point to an increase of utility. Take, for example, the money values of the houses, and suppose that the value of the standard is unaltered.

A rise in the money value of the houses may point to various improvements as regards size, convenience, sanitation, æsthetics. A rise in the value of house property may thus be one of the best signs of material progress. Another good example is found in the rise in prices of various kinds of breeding stock.[1] Again, the assumption by things of

[1] *Cf.* Rogers, *Agriculture and Prices.*

exchange value (which formerly possessed none) may also be a sign of increased utility to the nation. An improvement in the education of the people or in their powers of enjoyment may create or intensify a demand, and improvements in the means of production may lead to the utilisation (and valuation) of waste products. There are certain cases, however, in which a rise in money value is due to causes which point to a diminution of the total utility to the nation of the valuables concerned. The exhaustion of natural supplies may be marked by a rise in the price of the remainders; or a rise may be due to the artificial restrictions of monopolies or to increased taxation, or to lessened efficiency of labour and capital, or to checks on foreign trade. In all these cases — and they are examples only — a rise in price may mean a fall in utility.

There are also cases in which a fall in price may point to an increase of utility. A fall in price may point to greater abundance due either to the exploitation of fresh natural resources or to improvements in production.

From the national point of view it seems natural to look on increased cheapness per unit as necessarily involving increased utility. But the connection is by no means necessary, and the benefits of cheapness to the nation are liable to be overrated. If the cheapness is due to greater natural abundance or to lessened real cost, it indicates, no doubt, a gain of national utility. There is, however, a danger of underestimating the real cost. In making a balance of the gain and loss to the nation of cheapened processes of production, it is sometimes desirable or even necessary to leave out money, whether as a medium or a measure. Consider, for example, the development of the factory system in Britain.[1] The utility to the consumers of the cheapened goods was but small compensation for the disutility of the degraded labour of the children; the language of utility indeed seems ridiculously feeble in indicating the

[1] *Cf.* Von Plener's *English Factory Legislation.*

loss to the nation. The processes of exchange often conceal the true character — from the national standpoint — of the production and consumption of wealth.

A free individual making things (or catching things) for his own immediate consumption would not be likely to overwork himself; though most people are ready to overwork for money — making the means an end by a moral fallacy. And in earlier stages of society, on the institution of slavery, the owner of another person feels directly none of the disutilities of labour; he may, indeed, even take a gloomy pleasure in seeing his slaves suffer the hardships of toil. Thus, under a system of slavery, if we were to make the supposition that the slaves and their owners have equal and similar capacities of pleasures and pains, the balance of disutility would be enormous, as shown in many historical instances (*e.g.*, Roman slavery). And if we make a similar supposition regarding the consumers of cheap goods and their makers, under similar conditions, we shall often find a similar large balance of disutility. If men and women were still obliged to undergo directly the actual toil of making their own clothes (from the raw material) they would not undergo for a month the pains which the makers of cheap clothes in sweated industries endure throughout their lives for the clothing of other people.

It is, of course, true that the makers of the cheap clothes work, not for the utility of the clothes, but for the money that buys necessaries, and the utility of this amount of money is to them immeasurable.

From the national point of view, however, it is sometimes desirable to regard the producers simply as agents of production. Thus regarded, there can be no question that the utility of extra cheapness may be purchased at an enormous real cost (or disutility) that is only possible under a system of exchange.

I have already explained my objections to the monetary measurements of consumers' rents or surpluses. If, how-

ever, such measurements are to be retained for theoretical purposes, they should be supplemented by similar calculations for producers' deficits.[1]

Fortunately, however, we are not obliged to take the case just examined as typical. A fall in price does not generally mean an increase of producers' real cost, and may indeed be accompanied by a more than corresponding fall in the disutility of production. In less technical language, whilst the great body of consumers may gain by cheapness and plenty, the great body of producers may also gain by improved conditions of work. Under present conditions the real cost of labour (or the disutility) is least in the largest businesses, and greatest in the small workshops and in the domestic industries.[2]

And it is false also to look on all labour as necessarily involving disutility. The average healthy Englishman does not look on a day's work of ten hours as he would look on the extraction of ten of his teeth. The day's work may not be a continuous ecstatic delight (probably such a continuity is psychologically impossible, and the very idea is sickly), but it may afford a warm glow to body and mind; and, at any rate, involves no more real discomfort than sitting in a train.

Except in matters of sport, where it fortunately still survives in full vigour, there is, however, some danger of losing the idea that work is good and sloth bad. It is to be hoped, however, that the presumption is not to be altogether reversed, and sloth to be elevated into a cardinal virtue and labour considered as a cancer of the soul.

[1] We have only to suppose that the consumer himself provides directly his share in the necessary labour and to calculate how much he would be willing to pay rather than undergo this toil. We might then discover that though for his box of matches every week he would (*qua* consumer) be willing to pay £1 and thus make 239 pence of consumer's rent, he would gladly *qua* producer (if matchmaking were conducted by State conscription) pay more than £1 a week to find a substitute. And thus on balance there is a deficit.

[2] *Cf.* Webb's *Industrial Democracy*, Vol. II., pp. 539–550.

There are, no doubt, forms of labour that are disgusting, degrading, and intolerable to a high-spirited people, and one part of economic progress consists in their mitigation or abolition. But, on the other hand, a very large part of the work of the nation involves no real suffering, and if replaced by complete idleness would certainly cause a loss of happiness. Even apart from the scantiness of the pay the pleasures of idleness in a strike tend to nausea. To lead a life of leisure is a difficult art.[1]

By these and similar reasonings we reach the conclusion that, although the conceptions of utility and disutility may assist in the elucidation of the nature of economic progress, the assistance they give is rather formal and suggestive than substantial and historical. It is indeed necessary to go behind the money to the utilities and the disutilities, but these again have to make way for other tests of progress. The theory of utility, like the theory of evolution or the theory of final causes, puts more questions than it answers.

§ 5. *The Progress of Population further considered.* Before going further it is worth considering more in detail the grounds of the opinion that an increase of population is in general a decisive mark of increasing economic prosperity. In the first place, defence is still of more importance than opulence, and an increase in numbers means in general an increase in military power — actual or potential. Equally obvious is the increase in man's power over nature. Even simple combination of labour has its advantages, as has been admirably shown by Mr. Gomme.[2] Still greater are the advantages of complex coöperation, as we see in our own days in the rapid development of new countries in which the progress of centuries is forced into a few decades. The growth of population is necessary to the improvement of the means of communication and of trade; trade brings capital, and

[1] *Cf.* Veblen's *Theory of the Leisured Class.*

[2] *Village Community, e.g.*, see Ch. IV., on "The Origin of Terrace Cultivation."

capital and land both give for a time an increasing return, and thus the increase of population means an increase of wealth per unit.

Again, the actual increase of numbers shows that neither positive nor preventive checks are counteracting the natural growth. A natural increase of population that is kept down by positive checks points to a state of misery. Such was the state of England during the fourteenth and fifteenth centuries. War, pestilence, and famine [1] laid low the people. The Black Death was only one example of a plague that was constantly recurring, just as Agincourt was one battle in an age when there was no peace. In the judgment of impartial historians, indeed, Agincourt was as disastrous to England as Bannockburn was to Scotland. In the mediæval period, in addition to the plague from the East — the same in character as that now scourging Bombay — there was the typhoidal plague of the country, due to bad drainage, rotten and insufficient food, dirty clothes, and filthy and crowded hovels; every town had its lazar-house for lepers, and yet they overflowed with bell and box in the highways; smallpox was first chronicled in 1365, and, needless to state, came to stay; the sweating sickness which swept away thirty thousand Londoners followed on the victory of Henry of Richmond, and consumption is the most probable translation of the *morbus Anglicanus* of the chronicles. The average death-rate of young children was equal to that which now obtains only in the worst slums. The stress of life wore down the vigour of those who escaped the fatality of recognised diseases. "We must bear in mind the fact that in the fourteenth century men were deemed old at an age which we should now esteem as almost young. Chaucer's pupil, Hoccleve, describes himself as worn out with old age and ready to

[1] On famines and food, see Denton's *England in Fifteenth Century*, pp. 92, 3, 95 n. But compare Cunningham's *English Industry and Commerce*, Vol. I., p. 389.

die at the age of fifty-three; and all that he can look forward to is making a translation of a treatise on learning to die.

> "'Of age am I fifty winter and three;
> Ripeness of death fast upon me hasteth.'"[1]

The principal, if not the only preventive, check that was in force during this period was religious celibacy, fourteen being the usual age for marriage in the aristocracy, both of boys and girls. But neither early marriages nor the immorality of religious persons kept the population from declining, and with the decline of population there was general decay. "Throughout England the progress of society in material wealth, which was so marked a feature of the reign of Edward I., had not merely been arrested; civilisation and refinement had gone back, and England at the accession of Henry VII. was far behind the England of the thirteenth century."[2]

The retrogression in Scotland was more pronounced and more prolonged. "Scotland in 1286," says Cosmo Innes,[3] "was more civilised and more prosperous than at any other period of her existence down to the year in which she ceased to be a separate kingdom, in 1707."

Next to improvements in the physical condition of the people — which form, for example, such striking marks of progress in the Victorian era — we may notice the improvements in morals and manners. The treatment of these topics by Porter in his classical work on the *Progress of the Nation* and that by Macaulay in his immortal chapter on England in 1685, show that it is not necessary to apply any very metaphysical tests. The nation may have made more progress, perhaps, measured by the standard of Bentham than by the standard of Kant; but the direction and the magnitude of the progress effected in morals and manners cannot be disputed. To make reference again to

[1] Skeat's *Chaucer*, Vol. I., p. 16.
[2] Denton, p. 120.
[3] *Early Scottish History*, p. 158.

the fifteenth century, we are told that the standard of morality could not well have been lower.[1] And yet I am inclined to agree with Dr. Cunningham that the social influence of Puritanism in the seventeenth century[2] was most mischievous, and that it caused a deliberate acceptance of a lower tone of public duty, as for example in degrading the condition of labour, in the reckless treatment of native races, and in the development of the worst forms of slavery.

The progress in morals and manners in the reign of Victoria is shown by the diminution in ignorance, drunkenness, pauperism, vice, and crime, by the higher standard of the theatre and the press, and by the substitution of healthy for degrading amusements. At the same time the quantity of immorality and degradation, though proportionately less, is absolutely great; and, with all our economies and substitutions, human life and feeling are of all the products of civilisation still the most recklessly wasted.

§ 6. *Progress in Productive Powers.* The progress in the productive powers of a nation may be considered from a purely objective standpoint, and from this point of view there can be no question of its reality. Whether or not, through the course of ages, nations have increased in happiness per unit of population, or have approached nearer to any other standard of morality, may be a matter for argument; but there can be no doubt that the course of history shows an enormous, and, on the whole, a continuous, increase in man's power over nature. The Roman roads, straight over the hills, and their bridges over great rivers, were in their day marvels of construction; but they cannot be ranked with the railways that are tunnelled through mountains and carried over the great arms of the sea; and the Roman posts were, compared with our own, as snails to lightning. Transport and communication by land and water, the bases of industrial organisation, dur-

[1] Denton, p. 119.

[2] *Growth of English Industry and Commerce*, Vol. II., p. 107.

ing the present century have revolutionised the world, and we have already ceased to wonder at powers which former ages could not even imagine as attributes of their deities. The extractive industries — mining, fisheries, even agriculture — show extraordinary advances, and the progress in manufactures, in the widest sense of the term, is astounding. The growth in man's power over nature extends to the control over pestilences; as already observed, the same plague was formerly as fatal and as recurrent in Europe as at present in India. There is no science which has not added to the knowledge and power of mankind. A given amount of human energy, working with the requisite mental and material capital, has greater and greater efficiency.

§ 7. *Progress in Exchange.* Progress in exchange is coincident with progress in production, of which, indeed, it is logically a part. The greatest improvements of the nineteenth century have been in transport and the means of communication. The development of trade and commerce is shown by so many indisputable signs that the point requires no elaboration. The survival of the fittest and the law of substitution again find manifold exemplification.

It is not, however, only in the present century that the principle of exchange has become of vital importance in economic progress. The greatest agent in such progress has been the substitution of a money for a natural economy. The advantages of commutation have already been discussed, and the evidence might be indefinitely extended.[1] It is perhaps more to the purpose at the present time to point out some of the dangers of the unfettered development of a money economy. The owner of money is in some respects like the owner of slaves. It has already

[1] *Cf.* the "Dialogue on the Exchequer," Stubbs's *Select Charters.* The Indian evidence (*e.g.*, in Baden-Powell's *Land Revenue Systems of India*) gives, perhaps, the most striking examples of the progress of commutation. See also Cunningham's *Western Civilisation*, Vol. II., p. 70 *sq.*

been observed that slavery may be considered as a stage in industrial progress, and that the owner of slaves will compel them to produce what it would not be worth his while to produce for himself or theirs for themselves. And the idea is capable of a far wider application. Any one who can dispose of any power over others — whether in the form of superstition, custom, or law — may force them to do for him what they would never do for themselves. This is the principal element of truth in M. Loria's great argument. And under a money economy, the power of the owner of money over the person with no money is often a power of life and death. In old times in periods of scarcity free men sold their children, their wives, and themselves into absolute slavery — they bartered their liberty for their lives. Under a money economy people barter day by day fragments of liberty for fragments of life — it may be they barter fragments of what they call their souls for the support of what they feel to be their bodies. And just as in many fundamental characters the progress of society consists in the substitution of money payments, based on contract for payments in kind, based on law or custom, so in other matters of vital importance to the State, progress lies in the complete or partial abolition of money payments and of freedom of contract, and retrogression lies in the extension of a money economy and of the license of individuals.

The idea of material progress must on any view be subordinate to the ideas of freedom and humanity.[1] Equality before the law, one great practical principle derived from these ideas, rests on the maxim that justice cannot be bought and sold. The administration of justice no doubt has a real money cost, and it is generally desirable, even if we descend no nearer to principles than the expediency of a *finis litium*, to put some of the expense upon unsuccessful litigants; and the expense of counsel no doubt also favours the rich, although with a strong

[1] See below, Bk. V., Ch. II.

unbribable judicature this danger is lessened.[1] But the ideal of justice is to treat rich and poor alike. The whole treatment of the "mere" labourer as he used to be called[2] has in the present century been guided by the principle that some portions at least of health, morality, and freedom ought not to be salable for money. It has probably always been the theory, and to some extent always the practice, of Christianity that its services ought not to be bought and sold; and undoubtedly the worst corruption of the Church has begun through the corruption through money,[3] and the poorest churches, as Adam Smith pointed out, have kept nearest the Christian ideal.

The tendency of modern times is to make education a free gift, and already in England the working-classes can obtain education more cheaply than religion or justice.

The further development of this topic may be deferred to the following book, on the principles of governmental action. We shall then see that the progress achieved by a money economy is attended by serious drawbacks.

§ 8. *Progress in Distribution.* In production and exchange, economic progress is in the last resort an economy of means for the fulfilment of various ends that are supposed to be given, or taken for granted. Man requires food, clothing, shelter, and ornaments in increasing abundance and variety, and in the course of progress a certain amount of economic effort satisfies his wants in these respects to a greater and greater degree.

Progress in the distribution of wealth, however, seems only to be intelligible as progress toward a recognised ideal of justice or happiness, and thus to demand an ethical

[1] *Cf.* Pareto, *op. cit.*, II., p. 57, on some of the advantages of the venality of justice.

[2] *E.g.*, Jacob in the *Inquiry into the Production and Consumption of the Precious Metals* (1831).

[3] In the fourteenth century it is complained that all the sacraments must be paid for except *ashes*, *i.e.*, penance. Skeat's *Chaucer*, Vol. VII., p. 490.

and subjective standard. We might discover, for example, progress in the sense of greater happiness coupled with retrogression in self-reliance and freedom—and how is the balance to be struck? Fortunately this conflict between moral standards is generally more formidable in casuistry than in economics. Freedom and self-respect bulk so largely in estimates of happiness, and indeed all the ordinary virtues are in general to such an extent consciously or unconsciously utilitarian,[1] that, taking the nation as a whole, progress in happiness and progress in freedom and virtue are largely the results of similar conditions. There are no doubt fundamental differences and deep-rooted exceptions, at certain times of vital importance;[2] but most of the signs of economic progress in distribution would be generally accepted by different schools of morality, just as the normal signs of health are accepted by different schools of medicine. The economic principle of distribution may be described as that which insures maximum efficiency in production at a minimum cost, which tends to proportion reward to effort, which secures the fruits of the productive agents to their creators and preservers, which demands a minimum of the authoritative control of a *force majeure* and extends the freedom of each with the freedom of all: and this economic principle of distribution may be easily reconciled with any recognised system of moral philosophy. If we take distinctive periods of English economic history,—and I take England on account of the continuity and variety of its experience,—we find this economic principle becoming of greater and greater influence. The Roman occupation of Britain was, as regards production and exchange, an advance in civilisation, but the Roman methods of distributing wealth were the destruction of their empire. The masters worked their slaves to death, and the officials taxed the masters to death; there we have the great cause of the fall of Roman power. In the Saxon period we have an improvement, but the powers

[1] *Cf.* Sidgwick's *Methods of Ethics.* [2] See Bk. V., Ch. I.

of privilege and authority are still altogether in the ascendant over the economic principle. The Saxon Land Charters are to us amongst the most amusing documents of history. Nearly every one narrates that the king grants so much land to some churchman or churchwoman in consideration of so much prayer for his soul, and only occasionally we find the more material consideration *pro ejus amabili pecunia.* The lands are granted with all the customary rights over the people living on them, and with or without exemptions of services and dues to the king or other superior. But the point is that the whole scheme of distribution from the share of the king to the share of the *theów* is pervaded by privilege and authority. The sphere of contract is as limited as the rights of labour. From the Norman Conquest to the end of the mediæval period with the fifteenth century, the economic principle of distribution makes great progress,—it destroys the privileges of the king, the nobility, and the Church; it destroys even the power of the land-owner over his serfs. The destruction does not amount to annihilation, but it marks the advent of a new system. The rights of the land-owners to rents and of the Church to tithes are still defended, but mainly on the grounds of security and prescription. The powers of guilds and corporations are restricted or abolished. Monopolies and similar methods of private taxation are made unlawful and unconstitutional.

The method of distribution by privilege and authority in the present day survives in inheritance in combinations and in forms of custom and public opinion, but it survives on sufferance only. The working-man who pays for a seat in church and the gentleman who tips his host's servants do so of what is called their free will—but the compulsion is generally custom and the authority of opinion. In our own times in the last fifty years the acceptance of the economic principle as an ideal has become even more remarkable than its adoption as a practical rule of politics. "To each the product of his own

labour," is held up as the ideal by those who confess their inability to determine how the portion of each is to be separated and assigned.[1] And once this principle becomes as effective as the older principles of birth or theology which it has displaced, we may look for a further vast contraction of privilege. *Quieta non movere* is a good maxim for those in possession, but does not appeal to revolutionaries. Account must be taken also of the rush and hurry of modern life. In all ages we find references to the shortness of life and the certainty of death. But in general it is only in times of pestilence or other great disasters that this idea has become predominant over the ordinary sentiments of morality and religion. In our day, however, we incline to live as if surrounded by plague and fire, and we cannot afford to wait — we think that to lose time is to lose life; like Christian in one thing, we take up our burdens and run. Under such an emotional atmosphere every one is stimulated to discover short cuts to fortune, and every one is anxious that no one shall have more than his fair share. And, however difficult it may be to effect an ideal distribution on the principle of each according to his deserts or his needs, it is very easy to discover particular cases in which the minority appear to the majority to have far more than they deserve or need, or than is required by any idea of security of property and person.

Security is only one of the conditions of industrial progress, and security has proved to be compatible with very different systems of distribution. To revolutionaries in a hurry this is the first and the last lesson of history.

§ 9. *Summary of Characteristics of Economic Progress.* We may now summarise the general characteristics of a

[1] Cf. *The Right to the Whole Produce of Labour* of Anton Menger (translation 1899), with the excellent introduction of Professor Foxwell. The ideal was recognised before the Peasant Revolt (1381).

> "Ech man shall live by his travayl,
> Who best doth shall have most mede."

progressive society from the economic standpoint. We may place, first, an increase in population, the growth in numbers being associated with an improvement in quality indicated by various signs, *e.g.*, as regards health, morals, and manners, cost of education and earning capacity, rise in the general standard of life and standard of comfort; and negatively as regards the diminution of pauperism, crime, and the lessened need of the authoritative control of governments.

We have, secondly, an increase in material and immaterial wealth — the increase in its aggregate money value (measured by a uniform or adjusted standard) being associated with improvements in quality and variety.

Thirdly, we find improvements in the means of production, including the processes of exchange, involving a diminution in real cost, and an increase in productive power as shown by economies of time, energy, and disutility.

Fourthly, as regards the distribution of wealth, we find, as regards the whole society, an increase of general happiness and well-being, and as regards the constituent individuals, an increase of personal freedom, whilst reward is more proportioned to the efficiency of labour, and less wealth is accorded to privilege or extracted by public or private taxation.

It is plain that economic progress being so complex, we may find progress in some directions associated with retrogression in others, and the balance may be indeterminate, or irreducible to the same common measure. If, however, we compare the last quarter of the nineteenth century with any corresponding period of progress, it will, I think, appear that the modern industrial system involves for the nation, as a whole, far higher and more complex moral and intellectual capacities and activities; and that the mental and moral factors of production are now more than ever of greater moment than physical conditions.

And it seems that in the coming century economic progress will more than ever be governed by intellectual and

moral forces. The physical sciences are increasing man's power over nature and extending his knowledge of natural laws at an astonishing rate; and at an astonishing rate also man's insight into moral laws is advancing, — witness the progress of the sciences of comparative religions[1] and of comparative moralities.

[1] *Cf.* Flint, *op. cit.*, p. 165. See also J. G. Frazer's *Golden Bough* (2d edition), Preface and Ch. I.

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CHAPTER II.

PROGRESS AND MONEY.

§ 1. *Progress with Reference to Money and its Functions.* The definition and functions of money have been discussed in an earlier book.[1] We have seen that in modern civilised societies, an exact definition of the standard measure of value is laid down by the law of the country, just as in the case of other measures, and that, although simplicity is not essential to exactness, it is highly convenient. Such exactness is required for the interpretation of monetary contracts.

Similarly as regards the definition of money as a medium of exchange, particular governments define by law what is to constitute legal tender, so that the monetary obligations may be fulfilled. In general also they provide a certain portion of this legal tender, but in general a portion only. As regards standard metallic money, in the normal case the quantity issued depends on the quantity of the metal brought to the mints by private persons. Thus if there are no laws against melting or exportation, and no seigniorage, the amount of such money in circulation is regulated automatically.

In general, governments have found it expedient to supplement the standard metallic money by other forms of legal tender, over the issues of which they exercise more control (*e.g.*, token coins and bank-notes), and also to allow the legal extinction of monetary debts by payments of "representative" money. Economic progress largely depends upon or is associated with the development of the

[1] Vol. II., Bk. III., Ch. XI., p. 95.

two primary functions of metallic money, namely, certainty in the definition of the monetary standard and certainty in the medium of exchange that conforms thereto.

The interpretation also of the history of prices,[1] which is always a fundamental part of economic history, requires in the different periods an examination of the nature of the standard and the condition of the medium of exchange.

From the Norman Conquest downward we have very full and accurate records of the principal changes in the metallic money of England, both as a standard and as a medium. In both respects there have been vast changes, sometimes gradual and protracted, sometimes sudden and violent, sometimes forced upon, sometimes initiated by, government.

In English monetary history, we have examples of a single standard and currency of silver, of various forms of rated and unrated bi-metallism, and of a single standard of gold with silver as subsidiary. We have important examples also of depreciation and debasement of the currency and of recoinages; of convertible paper, of inconvertible, and of the resumption of specie payments. It is not too much to say that there is scarcely any present monetary problem which cannot be illustrated from past English experience, whilst the history of English industry and commerce requires a continuous reference to monetary conditions which can only be adequately understood by the aid of highly developed economic theories. The great historian of English prices, — Thorold Rogers, — as will be shown presently, falls into the most serious errors in his interpretation, owing to his neglect of the guiding hypotheses of theory.

I propose in the following sections to trace the principal changes in the English standard and in the medium of exchange. It will be found necessary, in consequence of the interaction of these functions, to blend the two inquiries, which logically might be better separated. This

[1] See next chapter.

examination of the anatomy of the monetary system is a necessary preliminary to any interpretation of movements in prices.[1]

Changes in the value of the standard or the purchasing power of money are best considered separately in the form of movements in general prices.[2]

§ 2. *The Silver Pound and the Silver Penny.* These are two portions of the existing English monetary system that can be traced to time immemorial, or at any rate to the time of the Norman Conquest. *First*, the "ancient right standard" of silver, except during the brief Tudor debasement (begun 1543 and rectified by Elizabeth in 1560), was never disturbed and still survives, viz.: 11 ounces, 2 pennyweights of fine silver to 18 pennyweights of alloy.[3]

Secondly, from the Conquest the monetary pound, considered as the standard measure, has always been equivalent to 20 shillings, and the shilling to 12 pennies, which proportion still survives. In this case, however, the identity is only of words and arithmetical proportion, the meanings have undergone complete transformation. To trace the transformation of the silver pound into the golden sovereign as the standard measure is one of the most interesting and instructive inquiries in monetary history, and it brings out most clearly the influence of the actual currency upon the standard, and of the power of circumstances over the "mere"[4] will of kings.

In order to bring out as clearly as possible the chief

[1] See below, Chs. III. and IV.

[2] See next chapter.

[3] There was a slight debasement of silver under Edward III. (1335–1344). For the sake of comparison it may here be observed by anticipation that there is no such remarkable continuity in the quality of the gold coins. The gold pennies of Henry III. were of pure gold. From Edward III. (1343) to Henry VIII. (1526), the fineness of gold was 23 carats 3½ grains fine to ½ grain of alloy; from 1527 to 1600 it varied between this limit and 20 carats, and was finally fixed at 22 fine to 2 of alloy in 1634. Thus for the fixed fineness of gold we have only three centuries — which is, however, remarkable, in comparison with other changes. *Cf.* below, § 5.

[4] The monetary term for arbitrary.

stages in the development, I shall deal only with the principal coins and moneys of account.[1]

To begin with — from 1066 to 1300 — the pound weight (Tower) of silver was coined into 240 pennies, and with the exception of some foreign coins the silver penny was the only coin in use; round silver farthings and halfpence were seldom coined till 1300. Twelve pennies were called a shilling (solidus); and the shilling was a convenient money of account; but the first coinage of actual shillings was in 1504 (18th Henry VII.), by which time the penny had fallen in weight from 22½ grains[2] to 12 grains.

The principal stages in the fall of the weight of the silver penny (which is still coinable and occasionally coined for royal ceremonies) are as follows:[3] —

William I.	1066 . . .	22½ grains
28th Edward I.	1300 . . .	22 "
18th Edward III.	1344 . . .	20¼ "
20th Edward III.	1346 . . .	20 "
25th Edward III.	1351 . . .	18 "
13th Henry IV.	1412 . . .	15 "
4th Edward IV.	1464 . . .	12 "
18th Henry VIII.	1527 . . .	10½ "
34th Henry VIII.	1543 . . .	10 "
6th Edward VI.	1552 . . .	8 "
43d Elizabeth.	1601 . . .	7½ "
56th George III.	1816 . . .	7¼ "

The principal changes in the seigniorage of silver (or the amount charged by the mint for coinage) are the following: From 1280 to 1464 the average was about 1*s.* in the pound; it then rose to 4*s.* 6*d.*, fell in 1470 to 2*s.*, in 1482 to 1*s.* 6*d.*, and in 1509 to 1*s.*, at which it remained until the great debasement of 1543. From 1552 to 1666 the seigniorage varied from 1*s.* to 2*s.*, and was then

[1] *Cf.* Hawkins (edition 1887), and Kenyon (edition 1884), for the *Silver* and *Gold Coins* of England respectively.

[2] The Tower pound of 5400 grains divided by 240.

[3] This table is taken from Hawkins's *Silver Coins of England* (1887), p. 7.

abandoned, till in 1816 silver ceased to be the standard, and silver coins became tokens.

Thus, except during the ten years of debasement, the seigniorage was not very heavy, and was tolerably uniform; but the abolition of the seigniorage on silver and on gold in 1666 led to important consequences, which will be considered after dealing with the gold coinage.

The other silver coins issued at various periods (*e.g.*, groats) may be regarded as convenient amalgamations of pennies, and the uses and abuses of various tokens [1] may be removed from the main path of inquiry.

§ 3. *The Gold Penny and Early Forms of Bi-metallism.* It is important to notice that from the earliest times down to 1816 (when the practice was abolished by law) foreign coins were frequently made current in England at certain specified values by royal proclamation. The influence of foreign upon English coinage was greatly increased by this practice, and must always be borne in mind. From the end of the ninth century to the middle of the thirteenth [2] there was no national gold coinage, either in England or in any of the neighbouring countries. Gold bezants, struck in Byzantium, and some Arabic coins in Sicily were used as bullion and occasionally penetrated to this country. They had, however, no legal currency and no official rating.

In the middle of the thirteenth century, which even the numismatist [3] is forced to call "an age of revolution and of new ideas all over the world," a native gold coinage was almost simultaneously adopted by the European nations. The first gold florin was issued by the Republic of Florence in 1252.[4]

In 1257 Henry III. issued gold pennies, and made a

[1] *Cf.* Bk. II., Ch. XIII., § 3.

[2] Kenyon, *Gold Coins of England* (edition 1884), p. 14.

[3] Kenyon.

[4] For the early history of gold coins in Europe generally, see W. A. Shaw's *History of the Currency.*

proclamation that they should be current within the realm of England in all transactions of buying and selling at the rate of twenty pennies or sterlings (*i.e.*, silver pennies) for every gold penny. The amount of gold contained in one of these pennies that survives[1] is 45 grains, that is about two-fifths of the fine gold of the present sovereign (113 grains), and the value gives a ratio of gold to silver of less than 10:1. It is interesting to notice that in less than three months the king had to issue another proclamation that no one should be obliged to take them, and that any one who did might obtain the value at which they had been made current at the king's Exchange, deducting only a halfpenny in silver for each gold piece. In 1265 their value was raised by proclamation to twenty-four pence.

No further attempts at gold coinage were made till 1343. In that year it was agreed that, to encourage trade, one kind of gold money should be made both in England and in Flanders. The coin chosen was called the florin, and was declared equal in value to 6*s.*[2]; it was soon discovered that the new coins were valued too high, and they were consequently generally refused; accordingly, by a proclamation of the next year, they were to be taken only with the consent of the receiver, and shortly after they were to be considered simply as bullion. Thus we have a startling example of the rapid transition of rated into unrated bi-metallism — a bi-metallism, moreover, in its origin international.

In the next year (1344), however, was issued the celebrated noble; in weight $138\frac{6}{13}$ grains, and containing a fifth more fine gold than the modern sovereign.[3] The value proclaimed was 6*s.* 8*d.*, which, at $20\frac{1}{4}$ grains to the silver penny, gives a ratio of about 11:1. The principal object was again to facilitate foreign trade, and no other gold or silver except these nobles could be exported.

In 1346 the weight of both gold and silver money was

[1] Kenyon, p. 15 and frontispiece.
[2] *Ibid.*, p. 17. [3] *Ibid.*, p. 18.

diminished, but in spite of this diminution it was found that the English coins were so much better than those of other nations that they were exported and base money brought into the realm, and accordingly the weight of both gold and silver coins was still further diminished.

Other significant facts in the evidence are: In 1381 the "intrinsic" value of the gold coins was higher than the nominal, and as a consequence gold coins of this date are very rare; in 1411, because of the great scarcity of money in the realm, the weight of all the coins was reduced, the noble falling to 108 grains; in 1421 gold coins are less scarce than silver, so that silver money could not be obtained in exchange for a noble even of full weight; in 1464 the weight of the silver coins was reduced, and the weight of the gold coins remaining the same they were raised in nominal value (*e.g.*, the noble from 6*s.* 8*d.* to 8*s.* 4*d.*); in 1465 the weight of the noble was raised to 120 grains, and its nominal value to 10*s.* This new noble was officially called the rose noble — the white rose, the Yorkist badge, being prominent in the ornamentation; but popularly it became known as the real or royal, a name borrowed from a French coin with the figure of a king in his robes. The influence of the French name is noteworthy, as it was inappropriate to the English coin.

§ 4. *The Sovereign first coined.* It is remarkable how many different events combine to mark the end of the mediæval period. One of these is the coinage of the sovereign by Henry VII. in 1489. This sovereign was double the weight of the royal (240 grains — that is, about double the weight of our present sovereign), and its most significant ornament was the double rose, indicating the union of York and Lancaster. The nominal value of the sovereign was 20*s.* and it may be recalled that for the first time silver shillings were coined in 1504. In 1522 and 1525 — it must be presumed in consequence of the deficiency of English coinage — several fresh foreign coins, both of gold and silver, were proclaimed current in England at certain de-

clared values, and it was made penal to refuse them.[1] Notwithstanding, it appears that there was a scarcity of gold coins, and in 1526 Wolsey was commanded to make such alterations in the king's gold money as might reduce it to an equality with that of foreign countries. Accordingly the sovereign was raised in nominal value to 22*s.*, and a little later to 22*s.* 6*d.*, the old weight and fineness being still preserved.

§ 5. "*Crown*" *Gold.* In this year also gold crowns and half-crowns were struck of the French standard of gold fineness, viz., 22 fine to 2 of alloy — the first instance of a gold coin of less than the old English standard fineness. This new "crown" gold eventually became the standard of fineness. In 1543 the fineness of the sovereign was somewhat debased, in 1544 still further, and in 1545[2] the lowest point ever reached in England for gold was attained, viz., 20 carats fine to 4 of alloy.

In 1548 the standard of "crown" gold was reverted to, and in Mary's reign the old English standard was resumed.

Elizabeth, however, by her first proclamation reintroduced a baser gold currency and issued sovereigns of "crown" gold of 20*s.* value. Gold coins during this reign were, however, also issued of the old standard. This curious combination of gold coins of different standards continued with various oscillations until 1634, since which time "crown" gold has been the only standard used.

§ 6. *The Unite and the Guinea.* In 1604 James I. issued coins called unites of 20*s.* value, in commemoration of the Unions of England and Scotland, but neither name nor coin displaced the old sovereign.

In 1663 new gold money was issued of 20*s.* (and other multiples and sub-multiples thereof). The new 20*s.* piece was called the guinea (as much of the gold was supposed to come from that quarter), and was marked with a small elephant — later an elephant and castle.

[1] For details, see Kenyon, p. 86. [2] *Ibid.*, p. 95.

In 1661 the value of all the old current gold coins had been raised by proclamation, and thus the new guinea was made lighter in weight. These old coins, however, remained in circulation at various values.

In 1670 the guinea was further reduced in weight to $129\frac{3}{8}\frac{7}{9}$ grains, and all subsequent guineas were of this weight and of the "crown" gold standard. The effort, however, to keep the principal gold coin of the realm of the value of 20*s.* in silver was doomed to failure, if for no other reason, through the great depreciation of the actual silver coinage.

In 1694 the silver coins in circulation had become so clipped and worn that the guinea, nominally worth 20*s.*, was usually given and received for 30*s.*

§ 7. *Review of Six Centuries.* Before considering the effects of the great recoinage of 1696, it will be useful to give very briefly the principal results of this survey of six centuries of English experience (1066–1696).

(1) During the whole period the real standard metal was silver, and with the exception of a very brief interval the ancient fineness was undisturbed.

(2) The quantity of standard metal which constituted the standard measure of values was the pound; and, to begin with, 240 silver pennies weighed exactly one pound, and silver pennies (sometimes broken into halves and quarters for change), constituted the whole native coinage.

(3) As wealth and trade increased, foreign gold coins became current, and eventually the national silver was supplemented by national gold coinage.

(4) Throughout the whole period after the effective introduction of gold coins, such coins were used as equivalent to varying amounts of silver. The usual course was for the king to proclaim the nominal silver value of new issues of gold, and to adjust the value of the old coins that remained in circulation. But in England, as in every other country of Europe, the legal ratio was constantly diverging from the market ratio, and from the ratio pre-

vailing in other countries. As a consequence, the dearer metal (*i.e.*, the undervalued metal in the coinage) was constantly melted down and exported. Thus bi-metallism by proclamation was constantly breaking down. Gold coins were always in use, but the tendency was for rated bi-metallism to become unrated, and then, owing to the inconvenience of this system, or want of system, to be again officially rated — and then to break down again into unrated.

(5) The difficulty in fixing the ratio was increased by the progressive fall in the weight of the silver coins down to 1601. There was no idea of fixing a ratio as such, *i.e.*, between gold and silver as metals, but the value of gold coins was expressed in terms of silver coins — so many silver pennies, or aggregates of such pennies — actual or ideal (*e.g.*, shillings). The name pound was retained, but a pound of silver actually made three times as many pennies when the silver penny obtained its fixed weight ($7\frac{1}{2}$ grains in 1601) as it did in the early mediæval period ($22\frac{1}{2}$ grains, 1066–1300).

(6) Four causes may be assigned for this progressive fall in weight of the silver coinage during the mediæval period: —

(*a*) The natural (and fraudulent) wear and tear of the coins gradually reduced the actual currency below the nominal weight, and from time to time the government recognised the *de facto* depreciation, and on a new coinage altered the meaning of the standard (*i.e.*, the number of pennies to be made from a pound of silver), whilst retaining the old names and proportions — the pound, shilling, and penny.

(*b*) The effect of this natural depreciation was increased by the use of inferior foreign coins, which were allowed to be current and were often overvalued. As a consequence the better national coins were melted or exported.

(*c*) The national gold coin was also occasionally overvalued with the same result.

(*d*) In the mediæval period there was an increasing

scarcity of the precious metals as the old mines were exhausted, and there was also an increasing demand for them, and comparatively a small use of credit substitutes. No government could afford to undertake the expense of a recoinage at the old standard of weight, and the only practical way to meet the scarcity of money was to recognise the depreciation.

Except in the short Tudor debasement it cannot be alleged that the king depreciated the coinage for his own gain.[1] The preservation of the ancient standard of fineness and the comparatively low and steady seigniorage also support this view.

It is a curious coincidence that the great debasement should have taken place just before the mines of Potosi were to give abundant supplies of new silver, and that the penny should have been fixed at its lowest weight as standard money after these supplies had become available. The effect on prices will be examined in the next chapter.

(*e*) The abolition of the seigniorage on both gold and silver in 1666 — the institution of free and gratuitous coinage of both metals — increased the force and rapidity of the action of Gresham's Law.

The slightest mistake on the part of government in proclaiming the value of the gold coins — the addition, for example, of a few pence to the nominal value of the sovereign — was sufficient to cause an import of gold and export of full value silver. Thus the actual silver currency became rapidly depreciated, and again the value of gold in that currency was gradually rated higher.

The evils of the fluctuating and depreciated currency soon became so intolerable that a recoinage of silver and revaluation of gold became necessary.[2]

[1] See also "The Debasement under Edward III., *Economic Journal*, June, 1897, p. 185.

[2] The effects are examined in the following section. The table given by Kenyon is useful as showing the progressive depreciation of the silver penny (and its multiples) relatively to gold (Kenyon, p. 211). A com-

§ 8. *From the Recoinage of 1696 to the Gold Standard of 1816.* In 1695 the guinea, nominally worth 20*s.*, was usually given and received for 30*s.*, and since estimates show that the silver coins contained on an average only half their proper quantity of silver, the price would have been higher still but for the limited quantity of these silver coins.[1]

To anticipate a little, the amount of foreign gold coins current was also very large. This is shown by the fact that the edict of 1700, proclaiming that the French louis d'or and the Spanish pistole should not go for more than 17*s.*, brought to the mint (according to the report of Sir Isaac Newton) the enormous mass of £1,400,000 for recoinage.

The specific measures introduced by Parliament to restore the silver coinage, *e.g.*, the fixing of dates after which the coins would not be accepted at their nominal values, and generally the remedies resorted to, have been described as vividly as the disorders of the depreciation once for all by Macaulay. Suffice it to note as a measure of the grievance that the cost to the nation of the remedy was nearly £3,000,000 — an enormous sum for the time. As the silver coinage was restored, the rating of the guinea gradually fell, and by an Act of 1696 a penalty was imposed on all who paid or received guineas at a higher rate than 22*s.* By 1698 the current price fell to 21*s.* 6*d.*, at which rate the guineas were received in government offices.

A report of Newton in 1701 states that the louis d'or or pistole, owing to a change in the ratio in France, would no longer be equal to 17*s.*, and he calculated that the guinea was overvalued at 21*s.* 6*d.*, the current rate.[2] As a natural consequence the gold coinage again began to displace the

parison with the table of ratios of gold to silver shows how much was due to the fall in the weight of the penny, and how much to the relative depreciation of the metal. See Table in Horton's *Silver Pound*, p. 98, for amounts of gold and silver coined.

[1] Horton, p. 72, date, 1695–1696. [2] Horton's Table, p. 98.

newly coined silver.[1] In 1717 Newton reported that in silver bullion the guinea was worth only 20*s.* 8*d.*, and Parliament went so far to meet him as to fix the value at 21*s.* This difference in favour of the gold coin was probably chiefly due to the influence of the gold interest (*i.e.*, the moneyed classes), and partly perhaps to the attractiveness of a round number to those not interested. But slight as the difference seemed, when it was taken in conjunction with open and gratuitous mintage for both gold and silver, it sufficed to make gold the principal currency. The whole of the new full-weight silver coins had disappeared in a few years.

By 1774 the gold coinage itself had by progressive deterioration become so depreciated that a recoinage was necessary; and in 1776 all gold coins weighing less than 128 grains to the guinea were made no longer current.

In 1797, there being a great dearth of silver money,[2] a new gold coin of the third of a guinea was issued.

In 1813 was the last coinage of guineas, and half and third guineas. In 1816 gold was made the sole measure of value and unlimited legal tender, and the silver coinage was definitely diminished in weight and became an avowed token with limited tender.

In 1817 a new coinage of sovereigns was issued at 123.27447 grains (with half sovereigns in proportion) of the standard of "crown" gold, and this marks the final victory in England of gold over silver, and the final displacement of the silver pound.[3]

[1] Note of Horton, p. 118; the full-weight silver disappeared and the effect of the recoinage was lost.

[2] From 1801 to 1815 practically no silver was coined at the mint, and the Bank of England was authorised to issue "tokens" of the nominal values of 1*s.* 6*d.*, 3*s.*, and 5*s.*, — the last being a Spanish dollar with the impress changed.

[3] In 1774 the first step was taken toward making silver token money. Legal tender was limited to twenty-five pounds, all debts above that amount being payable in silver by weight only at its commercial value.

§ 9. *Survey of Results of Period 1696–1816.* In the light of the evidence of which (bristling with figures as it seems) only the most significant facts have been adduced, there can be no question that the bi-metallism of this period was productive of serious evils. The costly recoinage of 1696 was wasted in a few years; the overrating of gold made the full-weight silver disappear, and silver became so scarce that gold had to be issued in relatively small pieces. Any convenience there might be in being allowed to use gold for larger payments was more than neutralised by the deficiency of silver for ordinary purposes.

An enthusiastic bi-metallist,[1] in writing a *Uchronie* of what might have been, could no doubt point out that all that was required was a constant or frequent readjustment of the rating of gold. But this is asking too much of any king's exchanger. It was to the economic interest of the taxpayers and of the great moneyed interests to have their guineas rated highly, and to the interest of all concerned in the bullion trade to send their gold to the best market. Fixing the value of gold by proclamation and by the custom of public offices no doubt tended to fix the rate in other transactions, and to somewhat raise the market price of gold in England.

The country suffered from a deficiency of currency in spite of the two metals.

The adoption of the gold standard by England was forced on it by circumstances. The particular time (1816) and manner of adoption (the curious weight of the sovereign) were no doubt the outcome of a series of "fortuitous" circumstances. But the survey of monetary history from the first introduction of gold seems to show that the adoption was the natural result of the development of trade and commerce.

It must now be generally admitted that national, as dis-

[1] *E.g.*, Dana Horton. The term "uchronie" was coined by M. Renouvier on the analogy of Utopia. It is a history of the "might-have-beens" of ideals.

tinct from international, bi-metallism is extremely unstable, and this view is confirmed by the English evidence.

Not only does the official rating constantly differ from (or fail to follow quickly enough) the market rating, but the customary rate of exchange of gold and silver coins differs from the official rate. Thus there is the constantly recurring danger of alternative depletion of one or other of the currencies.

Even if the system of parallel standards is officially adopted, and gold coins are supposed only to pass as bullion, still, as a matter of fact, they may as coins obtain a higher price. In any case the inconvenience of parallel standards is so great that it is impracticable, and one official rate succeeds another as rapidly and uncertainly as modern weather forecasts.

Accordingly, if any nation (not supported by an international convention of the kind recently proposed) wishes to use both gold and silver for coinage, it has two alternatives, and practically two only: —

First, it may protect its coins from the melting pot by a heavy seigniorage, or by limiting the quantity issued — in the one case giving them a scarcity value, in the other an artificial value.

But, as the historical survey shows, even in its origin the principal use of gold was to facilitate international payments, and the other main use was to facilitate large payments within the country. The artificial valuation of gold coins would have hindered both these uses.

Secondly, the other alternative is to make one metal into tokens for convenience, which involves, as already explained, the limitation of mintage, and the limitation of legal tender.

Such a subsidiary coinage is of course confined[1] to the country concerned, and is never melted or exported.

Now it is quite clear that if only one metal is to be unlimited tender, there are very strong natural reasons — abundantly illustrated by the English history cited — for

[1] If it is not, the Latin Union shows the difficulties involved.

making that metal gold. A token coinage of gold, *i.e.*, legal tender only for small amounts and incapable of export, would be in contradiction with the principal uses of gold, namely, for international payments and for the larger domestic payments. The alleged greater stability of silver in value (*i.e.*, as regards general prices) is still too obscure to guide governments. Thus — failing a wide international agreement strong enough to secure a fixed ratio — the natural result in the light of historical development is the adoption of the gold standard with silver as subsidiary, and notes and other representative forms of "money" as supplementary. The final adoption of the gold standard by the Western world has been hastened by two recent events: First, the great increase in the supplies of gold has lessened the danger of an appreciation and of a pressure on bank reserves; and secondly, the dislocation of the Indian silver currency from its metallic value has lessened the influence of a depreciation of silver in causing an appreciation of gold.

In any case, as often pointed out, the governments of the world are much more moved by such obvious inconvenience as the expense of recoinage, than by any fear of a further general fall in prices.

The subject of progress in relation to general prices demands, however, a separate chapter.

It may be observed, in conclusion, that the failure of the fine arts to show the same continuous advance as material production — often a notable exception in general progress — is well illustrated in the history of the English coinage. The material progress of the Victorian era is unparalleled in history, but the Victorian coins are altogether inferior in design to most of the celebrated English coins.

NOTE ON MEDIÆVAL CURRENCY. — "The English Currency under Edward I.," by C. G. Crump and A. Hughes (*Economic Journal*, March, 1895), and "The Debasement of the Coinage under Edward III.," by A. Hughes, C. G. Crump, and C. Johnson (*Economic Journal*, June, 1897), are valuable monographs on mediæval money, and usefully supplement the standard works relied on in the text.

CHAPTER III.

PROGRESS AND GENERAL PRICES.

§ 1. *The History of Prices in England.* Thanks to the labours of Thorold Rogers[1] we have abundant materials for the history of prices in England from 1260 to 1702, and from other sources (*e.g.*, the works of Anderson and Macpherson, Arthur Young, Tooke, and Newmarch) the records can be continued with increasing fulness and accuracy down to our own times. The great work of Rogers must still be considered for the most part as coal at the pit's mouth, requiring much additional labour to convert it into light and power. It is perhaps to be regretted that Rogers did not confine his energies to the collection, revision, and elucidation of his prices. A careful study of the materials collected with such mighty labour and perseverance shows that his commentaries fall far short of the value of the text. Many of his detailed inferences and comments are indeed most striking, suggestive, and picturesque, and he has done as much as any writer to restore the material realities of mediæval life. Even in detail, however, he is often painfully inaccurate and even inconsistent.[2]

[1] Rogers died in 1887, shortly after the publication of Vols. V. and VI. of the *History of Agriculture and Prices.* Vols. VII. and VIII. were to carry on the work to 1793, when the works of Tooke and Newmarch begin.

[2] Vol. I., p. 177, he states that by the reign of Henry VIII. the penny issued from the mint sinks to little more than seven grains (instead of $10\frac{1}{2}$), and the context shows that the error is not a misprint, but the basis of a serious argument; in Vol. IV., p. 64, he states that the average price of the tod of wool in the 140 years of the first two volumes was 4*s.* 3½*d.*, and was advanced to double the price in 1547, and to nearly five times in 1575. And his comment runs, "We need not, therefore, be surprised at find-

In his more general conclusions Rogers is still more open to criticism.[1] He was unfortunately hasty, narrow and biassed in his judgment, and he was so much impressed by the originality and comprehensiveness of his own task that he neglected as of no account the valuable work of others. The most curious point about his general conclusions is that they are often in reality drawn from the *a priori* theories of the economists whom he rated so vehemently — their theories being taken *simpliciter* and not *secundum quid;* he is, for example, far more abstract and hypothetical[2] than Ricardo in dealing with the principles of money and prices.[3]

There can, however, be no two opinions as to the value of the raw materials of the evidence in his six centuries of prices, and as to the stupendous labour involved, not only in the discovery and transcription of documents, but in striking the averages and noting the oscillations in years, tens of years, and centuries.

In the preface to this great work Rogers observes that the laws which govern prices will be seen more clearly in these mediæval records than they could be in a modern price current.

ing that the temptation to sheep farming was almost irresistible, and that statute after statute failed to arrest the tendency." But in the same Vol. IV., p. 328, he writes that the average good English wool up to the debasement was 8*s.* 7*d.* the tod (which is the actual average of his first two volumes, *cf.* I., pp. 366, 367); whilst that of 1400–1540 is given as 6*s.* 2¼*d.* as against 8*s.* 9*d.* for 1260–1400; and in the chapter of averages, Vol. IV., Ch. XXV., in which the prices of 1401–1540 are compared with 1541–1582, the rise in the price of wool is put at 2.81 in the later period. I cite these examples in no captious spirit, but as indicating the great need there is for taking Rogers's statements with caution. The whole work is much in need of a thorough Teutonic revision and supplement.

[1] See below, p. 50. [2] See below, p. 53.

[3] The corresponding work by Vicomte D'Avenel on French Prices from 1200 to 1800 is introduced by two excellent chapters on the Value of Silver and on Changes in the Standard and Currency. The whole work should be compared with that of Rogers. *Histoire Économique de la Propriété, des Salaires des Denrées, et de tous les Prix en général depuis l'an 1200 jusqu'à l'an 1800, par Vicomte D'Avenel.* 4 vols. Paris (1894–1898).

If the laws that govern prices are not so simple as Rogers imagined, there is no doubt that the records afford abundant material for the verification of abstract theories, and the discovery and illustration of disturbing causes.

The popular idea that before the nineteenth century, or at any rate throughout the mediæval period, prices were definitely fixed by law and custom, finds no support in the voluminous entries of Rogers; in all kinds of vendible commodities (including labour) we find variations in the prices from month to month and year to year — variations also in periods of tens of years and periods of hundreds.

We find also great changes in the general level of prices; and although the adjustments to a change may be made unequally in time and place, "in the long run" they arrive; and the length of run required (if that tedious and much abused expression may be so varied) can hardly exceed six centuries, even when the tendencies encounter most obstruction; and if more evidence is required in addition to the six centuries of Rogers, there are all the materials of the eighteenth and nineteenth. It would appear, then, that if the laws of prices, whether general or relative, are not discovered, it will not be for lack of evidence.

§ 2. *The Comparison of General Prices at Different Periods.* In the previous chapter it has been shown that although, from the Conquest downward, prices have been expressed in terms of pounds, shillings, and pence (*L. s. d.*, *libra*, *solidus*, *denarius*), the pound being the unit and the shilling and penny definite sub-multiples, the meaning of the pound has changed. A pound means at different periods different weights of fine silver, and finally it comes to mean about a quarter of an ounce of fine gold with a little alloy.

We also find at various epochs that the actual weight of a certain quantity of currency not only differs widely

from the legal weight, but that sometimes the difference is, and sometimes is not, recognised practically; and the depreciation in the weight of the currency may or may not be associated with a corresponding depreciation in its value.

So long, however, as the silver standard was even nominally preserved, — so long as gold was rated in terms of silver, — it might be thought that all that is necessary to convert the measure of values of one period into that of another is to calculate the number of grains of fine silver in each parcel of twenty shillings (or two hundred and forty pennies) issued from the mint. This is, in effect, the method adopted in calculating the par of exchange between different countries with the same metallic standard but different coinages, the relative values of the respective standard coins being compared in terms of the fine metal which they contain.

And if the primary object be simply to discover the variations in the value of silver (as a metal), no doubt such a comparison is a necessary preliminary, and is rightly taken account of by Adam Smith in his treatment of this problem.

In 1260, for example, when the tables of Rogers begin, the silver penny weighed $22\frac{1}{2}$ grains; by 1540, before the debasement, it had by progressive reductions fallen to $10\frac{1}{2}$ grains. As a consequence, at the later date an actual pound of silver would make more than twice as many pennies as at the former, and so far it would command more than twice as much of any particular commodity (*e.g.*, wheat) having the same price in terms of pence — and we may say that the value of silver relatively to commodities in general, if general prices had remained the same, would have more than doubled.

It is, however, doubtful whether this simple method of comparison between distant times is not dangerously liable rather to suggest serious fallacies than to aid in solving difficult problems. We are certainly not entitled

to assume that the general level of prices will tend to move exactly in response to the changes in the weight of the fine silver contained in the coins, or that, if prices do not so rise on progressive reductions, silver has become scarce exactly in that proportion. And yet this is the deduction made by Rogers, and to escape the consequences of such a curious preëstablished harmony he supposes that throughout the mediæval period the prices refer to pennyweights of the original standard; that is to say, if his meaning is taken strictly, if a quarter of wheat was sold in 1260 for 6*s*., and in 1340 for 6*s*., at the second date the seller would have received more than twice as many actual pennies as at the former — although the nominal price was the same.

As regards the progressive diminution of the weight of the silver penny Rogers writes: "If we suppose that the change was understood and effective, it is difficult to understand why all commodities should not have risen in money value to the whole of the amount, unless we accept not only the hypothesis of Adam Smith, that the relative value of silver (to commodities) was constantly increasing during the fifteenth and earlier part of the sixteenth century, but that the increase corresponded with chronological precision to the several changes which were made in the indentures of the mint."[1]

And in another place he argues: Since prices of articles in general do not rise with these alterations in the weight of the currency, we are left to conclude either that silver was nearly three times as scarce as it was at the beginning of the fourteenth century, or that payments are made as they are expressed in pounds and penny*weights*.[2] It would not conform to the proportions of this work to examine the curious hypothesis that, up to Elizabeth, payments were made according to the weight of the old standard of the pennyweight when that standard had been

[1] *Agriculture and Prices*, Vol. IV., p. 187.
[2] Vol. I., p. 177.

legally altered several times, nor indeed is such an examination required.[1]

It is, however, well worth while to consider carefully the main assumption of Rogers; namely, that the prices of commodities should at once and exactly conform to changes in the weight of the currency — *e.g.*, rising, as in the case supposed, with every fall in weight. This assumption is really drawn from the most simple abstract form of the quantity theory of money — a form of the theory that only holds good under hypothetical conditions,[2] which are always largely modified in practice.

Rogers, however, takes no sufficient account of these disturbing causes; and he does not even seem to realise the fundamental position that the reduction in the weight of the coins could only raise prices if thereby the quantity of money was increased; and, further, that the rise would only then be in exact proportion if "other things" remained the same. But in the mediæval period other things did not remain the same. The progressive diminution in the weight of the English penny would so far, no doubt, increase the supply of silver available for coinage; but some of this extra supply might have been taken for use in the arts, and we know that the use of plate and ornaments largely increased; and some might have been exported, as the continuous legislation against exportation showed was the case; and even supposing that every old penny was coined into two new ones, the effects of the increase in supply upon general prices might have been

[1] The student may supplement the treatment by Cunningham in Vol. I., p. 326, by reference to the following evidence from Ruding: Vol. I., p. 407, *sub anno* 1335 he shows it was declared illegal to choose out and weigh the old and heavy coins, and Vol. II., pp. 170, 171, 407, 464, he describes the use of the little instruments issued by the mint to test the weight of particular coins, whilst Rogers, to suit this extravagant assumption, argues that these mint balances were issued, not to weigh small pieces of silver, but "aggregate" amounts, whatever that may mean. (See also *Economic Journal*, June, 1897, p. 185 *sq.*)

[2] *Cf.* Book III., Ch. XIV.

more than neutralised by the greatest revolution of the mediæval period, namely, the substitution of a money for a natural economy. If the English monarchs, whom Rogers suspects of tampering with the currency for their own immediate gains, had rigidly kept to the penny of $22\frac{1}{2}$ grains (as they did to the old right standard of fineness), they would have prevented, by the stringency of money thus created, a large part of this most salutary commutation. General prices might have maintained their stability, but they would have done so by a diminution in the amount of monetary transactions and the persistence of payments in kind.[1]

It is obvious that when we are comparing changes in relative prices, the particular prices of each particular period are best compared with one another in the first place. Thus, for example, we may observe the movements in money wages and in the price of wheat, and calculate directly the changes (so far) in real wages without calculating the grains of silver in the coinage of the time, either when newly issued from the mint or as reduced by the wear and tear of circulation.[2]

§ 3. *Further Illustrations — the Tudor Debasement.* The stability of mediæval prices — that is to say, from 1260 to 1540, reckoned in £. *s. d.* (*libra*, *solidus*, *denarius*) and not in grains of fine silver — coincidently with the reduction in the weight of the coinage as issued — is in marked contrast with the great rise in prices which took place *after* the debasement of Henry VIII. and Edward VI. (1543–1552). The tables[3] compiled by Rogers for all

[1] In the valuable tables constructed by Newmarch (which, however, require to be corrected for England by the later work of Rogers) giving the history of the prices of wheat in France and England from 1401 to 1855, the prices are reduced to their English coinage values of the present time, through the measure of fine silver. In the period, however, from 1401 to 1560, only the ancient actual prices are recorded, and it is pointed out that the conversion of ancient money prices into modern money prices is attended with several disadvantages.

[2] See below, Ch. IV.

[3] Vol. IV., Ch. XXV., p. 734.

the principal commodities, in which he compares the average prices from 1401 to 1540 with these averages from 1541 to 1582 are very remarkable. In every commodity but one, namely, glass (in which there is a slight fall in the proportion of 1 to .93), there is in the last 42 years, compared with the previous 140, a notable, though variable, rise in price. The differences in the ratio of the rise in various cases must be accounted for by various causes affecting relative prices,[1] but the extent and degree of the general rise can only be explained on the assumption of some general and wide-reaching disturbing influence.

Rogers, however, again shows that in dealing with the materials collected and arranged with such admirable historical energy, he was sadly in need of the guiding hypotheses of the theorists whom he so unsparingly condemns.

He assumes that issues of base money must be "instantly and irremediably" mischievous, the mischief consisting in the fact that wages do not rise in proportion to the rise in the price of labourers' necessaries. And he goes so far as to state that the effect of these sixteen years (say rather nine) of base money in England can be traced in the history of labour and wages from that period to the present time.[2]

In the first place, however, as had already been observed by Cliffe Leslie in his valuable study on the distribution and value of the precious metals in the sixteenth and nineteenth centuries,[3] prices in England before 1560 would rise in proportion to the increase of base money and not in proportion to its baseness. In fact, base money, in accordance with Ricardo's well-known argument, will only raise prices if the quantity of money is thereby increased. But, as Cliffe Leslie points out, there was a hole in the English purse, and the ancient fine coin of the realm ran out into the foreigner's hands as fast as the new base

[1] See next chapter. [2] Vol. IV., p. 736. [3] *Essays*, p. 265.

money was poured in. Moreover, wars with France and Scotland drew much money out of England. Thus, so far as the quantity of money was concerned, the increase was certainly not in proportion to the degree of the debasement, and to ascribe the general rise to that cause only is a case of *post hoc ergo propter hoc.*

And secondly, Rogers gives no satisfactory reasons why the debasement should affect the various classes of commodities so unequally. Taking the older prices as the unit of comparison (1401–1540), the prices of 1541–1552 rise in the following proportions: oxen, calves, lambs, 3.46; other live stock (excluding swans and rabbits), 2.44; different kinds of corn, 2.40; other farm produce (cheese, butter, hay, straw, wool, honey, candles, salt), 2.53,—or taking the general average of these groups, the rise is 2.71. On the other hand, taking the prices of eleven kinds of labour — eight artisans and three husbandmen — the rise is only 1.60. No reason is suggested why the debasement should affect the commodities named more than labour. Passing to other products, the average rise in eight kinds of fish is 1.62; in six kinds of fuel (fagots, charcoal, firewood, etc.) 1.71; in building materials (lime, laths, tiles, bricks, slates, nails, etc.) 1.71.

Taking the general average of labour, fish, fuel, and building materials, we have 1.64; and Rogers concludes that this conformity of the rise in those products to that of labour is due to the fact that they owe most of their value to the labour spent on them.

In metals the rise is 1.88, "an excess, as might have been expected, over those articles which depend for their value on labour only, but considerably less than that witnessed in provisions." Linen rises 2.08; clothing 2.12; paper 1.50; Western foreign produce 2.03 and Indian 1.88.

The argument of Rogers resolves itself into two propositions: first, the debasement affects money wages less in proportion to other things; and secondly, other things

rise in price inversely to the quantities of labour (or the payments in wages) which they involve. For the first proposition no reason is given, and a survey of the tables shows that the second is unfounded. In the first table oxen, calves, and lambs rise compared with capons, geese, hens, ducks in the proportion 3.46 to 2.9—but surely the labour bill for the former is greater than for the latter. Again, why should all kinds of grain rise 2.40, the rise in agricultural labour being 1.75, whilst the rise in fuel derived from the surface of the land is only 1.71? Do fagots and firewood require more labour than wheat and barley? And finally, why do the metals rise so little more than labour, when other produce of the kind is so much enhanced?

The debasement may have had some effect in the early part of the general rise in the sixteenth century, but it does not account for the whole rise any more than it accounts for the unequal distribution.

And to ascribe to this debasement the degradation of English labour for three centuries is theoretically absurd, and finds no confirmation in Rogers's own evidences. The restoration of the coinage by Elizabeth, by bringing new silver to the mints and old coins from hoards and from abroad, increased effectively the quantity of money and so far raised prices, and any surviving influence from the debasement was altogether overpowered.

§ 4. *Further Illustrations: the Recoinage of 1696.* The state of the currency which led to the great recoinage of 1696 and the effects of that recoinage are also most instructive. By the middle of the seventeenth century, says Rogers, summarising the results of his evidence, general prices attained that level which, except in so far as they are affected by the seasons and by improvements in production and conveyance, they retained down to the beginning of the last quarter of the eighteenth century. Taking the period, 1583–1702, during the first sixty years prices creep up steadily during every decade; in the

second sixty it is true the rise continues, but it is comparatively slight.

Passing over the many topics of interest connected with these two general movements in prices, I wish to call attention only to the depreciation of the currency. As already shown, the silver coinage had come to contain — before the recoinage — less than half its nominal value of fine silver. But the curious thing is that this great depreciation is not reflected in general prices. And a careful comparison of the average prices of 1696–1702 with the average of the years immediately preceding, or with those of the whole period, shows that the recoinage — which lowered the value of the guinea in a few months from 30*s.* to less than 22*s.* — also had no appreciable effect on general prices.[1]

On the quantity theory of money in its extended form, this failure of general prices to respond to the depreciation and appreciation of the silver coinage need cause no surprise. But to those who always look for a simple connection between the actual coinage and prices this want of correspondence is inexplicable.

§ 5. *Other Causes affecting General Prices.* It is evident from the foregoing inquiry that in explaining the movements of general prices over long periods, changes in the standard weight of the coinage and changes in the weight of the actual currency are only two of the elements to be considered, and often not the most important. The reduction in the weight of the mediæval penny no doubt assisted in preserving the stability of prices, but it was still more beneficial in aiding the development of a money economy. The reduction in the weight of the actual currency before 1696 had practically no effect on general prices, but

[1] For the six years (1696–1702), the average price of wheat rises above the average of the whole period about 7 per cent; iron rises 5 per cent; candles 4 per cent; lead falls 6 per cent; in labour generally there is a rise. (Rogers, *op. cit.*, Vol. V., pp. 669, 670.) See also Tooke's *History of Prices*, Vol. I., pp. 26, 34.

was productive of such great inconvenience that a restoration at great expense was felt to be necessary.

We may now notice briefly the influence of other important elements as seen in the progress of English prices. The effects of the great silver discoveries of the sixteenth century (supplemented later by new gold) have been so often treated that further examination seems unnecessary.[1] We could have no better illustration of the fact that an increase in the quantity of standard money so far raises general prices.

The increased efficiency of standard money, as shown by the ability of a given quantity of such money to effect an increasing amount of monetary transactions, is one of the most characteristic signs of economic progress. It is associated with the growth of credit in all its forms, and the latest developments reveal the most sensitive organisation, and are only possible with a corresponding development of mercantile law and commercial morality on the one side, and on the other great improvements in the material means, the organisation, and the rapidity of communication.

In spite, however, of this enormous increase in its efficiency, the quantity of standard money is always an element of the first importance. The whole credit system as hitherto developed rests on a metallic basis, and any serious drain on banking reserves by crippling advances would lower general prices.

It may be noted further that an increase in the reserves of banks after a certain point has no such corresponding effect in raising prices. It is plain that if, for example, the gold in the Bank of England were doubled, that would not admit of all the credit transactions in England being doubled, or, indeed, of being increased beyond a small percentage.

The economies in the use of gold have been carried to

[1] *Cf.* the able survey of L. L. Price, *Money and its Relation to Prices* (1896), Ch. III.

such a point that any serious pressure at once causes a serious contraction of credit; but in normal times banks cannot give a proportionate extension to credit generally, simply because their metallic reserves increase. Thus the reserve of the Bank of England oscillates between amounts that are dangerously small and uselessly large.

The immense additions to the gold supplies of the world in recent years have had no appreciable effect in raising prices, whilst the discoveries of 1850 were marked by similar effects (though less in degree) to those of 1645.

The extension of foreign trade and the increasing interdependence of international markets has rendered the general level of prices in any one country more and more dependent on causes acting throughout the commercial world. Even in the mediæval period prices were partially affected by international influences, and the movements of the precious metals were of great importance and watched with anxiety by governments and merchants.

One fruitful cause of disturbance was found in the course of the foreign exchanges, and even in the earliest times, after the effective introduction of gold in international commerce, the disturbances in the ratio between gold and silver, alike in the markets of the world and in the proclamations of governments, affected greatly the movements of the precious metals. It is true, however, that the principal results were seen, not in corresponding adjustments of general prices, but in the general inconvenience caused by the dislocation of the exchanges and the export of ancient fine money.

But in the last quarter of the nineteenth century we have seen these disturbing causes affecting general prices on a large scale. I have given reasons in a former part of this work [1] for supposing that so far as the general fall in prices since 1875 was to be ascribed to causes primarily affecting the currency, the predominant influence was the depreciation of silver relatively to gold. The immediate disturb-

[1] Bk. III., Ch. XVII.; more fully in *Money and Monetary Problems.*

ances from time to time in the exchanges between gold and silver using countries have been largely met by a development of banking on the principles of insurance; but the more prolonged disturbances, such as the want of conformity of the legal to the actual ratio of various gold and silver coinages, the difficulty of investing and withdrawing capital in silver using countries, and the increase in the burdens of the indebtedness of silver to gold using States have only been partially neutralised. The monetary systems recently and at present prevailing in the United States, the countries formerly composing the Latin Union, India, and Japan illustrate forcibly the difficulties in the ratio as affecting legal tenders.

In a lesser degree the recent financial history of the same countries shows the difficulties in the transfer of capital, and India in particular illustrates the trouble of paying interest in gold provided from revenues collected on a silver basis. The effects of the general fall in gold prices were perhaps best seen in England itself in spite of its gold standard, but the present state[1] of trade seems to show that the great mass of commercial transactions have been adjusted to the new basis.

It seems probable that as regards the future the whole commercial world will effectively adopt gold as the standard measure of prices. If this takes place, it is to be hoped that the increase in the supplies of gold will continue, and that the various countries concerned (including India) will, in the course of time, be enabled to put their standard currencies on an automatic gold basis.

§ 6. *The Connection between General and Relative Prices.* There are various causes of the greatest importance as affecting relative prices which, however, have comparatively little effect upon general prices.

Take, for example, the case of improvements in production. An improvement in any one thing tends to lower its price compared with the general level, as, for example, in

[1] 1899.

the case of glass in the sixteenth century; but a general and continuous succession of improvements in production does not necessarily involve a general and continuous fall in general prices. This is at once evident theoretically from the abundance and complexity of the causes the resultant of which is the general level of prices. And the theory is abundantly confirmed by taking long historical periods.

The comparative stability of prices from the middle of the thirteenth to the middle of the sixteenth century, was not due to stagnation or immobility in productive processes; the upheaval of prices during the next century most certainly does not point to a retrogression in the arts of production, nor does the rise in prices after 1850. A comparison of mediæval prices with prices at the present day — even if we take as the standard of comparison grains of fine silver — shows conclusively that the most extraordinary and amazing improvements in the methods of production are not accompanied by a corresponding amazing cheapness. Take, for example, wheat, which Adam Smith uses as the best practical measure of variations in the value of silver. Wheat at 6*s.* per quarter in the last century of the mediæval period may be said to be equal in value to 756 grains of fine silver. Wheat at 30*s.* per quarter (the present price) may be said to be equal in value to 12 oz. of silver or 5760 grains. That is to say, wheat reckoned in money (reduced to the measure of fine silver) is at present more than seven times as dear, and if we take actual prices (without conversion) wheat is five times as dear as in the Middle Ages. But at a moderate estimate a given amount of labour applied with the corresponding capital to the same land, would at present raise at least four times as much.[1]

In the same way it may be shown also that improvements in transport and the means of communication are

[1] On the yield of grain *per* sown acre at different periods, see A. H. Inman's *Domesday and Feudal Statistics*, p. 115.

not necessarily associated with increasing cheapness, in the sense of a general fall of prices. Similarly as regards the influence of great wars, plagues, and famines — the disturbances in relative prices are very great, whilst the effects on general prices are uncertain.

It may, however, happen that causes primarily affecting relative prices have secondary and ulterior effects on general prices.[1] They have such effects in so far as they alter the quantity of money, or the nature of the whole work to be done by the money. Take first a simple case: Great improvements in the production (including the processes of exchange) of all kinds of manufactures — agricultural, mining, and the extractive industries generally being primarily unaffected — will cause a fall in the relative prices of manufactures compared with raw produce. It may happen, however, that the consumers will spend the same aggregate part of their money incomes on those things as before, the consequence being that in the index numbers all manufactures are lower, and raw produce being the same, there is thus a general fall.

It is evident, however, that this is only one simple case out of many possible;[2] and even in this case the demand for raw produce to supply the materials of manufacture and machinery must so far tend to raise its relative price, and the total effect on the index numbers will be difficult to estimate. The consumption of manufactures may also increase, but less than in proportion to the increased cheapness and thus more money may be set free directly to spend on agricultural products.

Again, a rise in the price of certain classes of things may have a much greater effect on general monetary conditions than a corresponding rise in other things,[3] and conversely of a fall. A general rise in the price of labour

[1] For fuller treatment, see *Money and Monetary Problems*, "Essay on Causes of Movements in General Prices."

[2] *Cf.* Mill's argument in Bk. III., Ch. XXII.

[3] *Cf.* the general argument in Giffen's *Stock Exchange Securities.*

will so far cause a greater demand for metallic money than would a corresponding rise in stock exchange securities. Similarly a drain to meet the expenses of an adverse balance of trade, due to over-importation or exceptional dearness, has in general a much greater effect on general prices than the receipt of a corresponding balance for excess of exports. The relations of general price levels in various countries are also dependent largely upon relative prices. Relative prices, again, are subject to numberless causes of change according to changes in the conditions of demand and supply and of taxation. The only general proposition that seems to cover all these cases is that general prices between different "countries," and relative prices between different "things," must be so adjusted that relative values (*qua* changes in the value of money) remain undisturbed after all the necessary readjustments have been effected.

I have introduced at this stage this somewhat abstract reasoning in order to guard effectively against any simple application of the quantity theory.

And by way of illustration, I hazard the opinion that the rise of prices from 1540 to 1583, which Rogers ascribed exclusively to the debasement, was largely due to a disturbance of relative prices. The extension of the woollen manufacture raised the price of sheep and wool and encouraged sheep-farming. The extension of sheepwalks so far tended to counteract this rise, but the necessary contraction of tillage raised the price of grain and of foods for cattle, and thus of cattle themselves.

This revolution in production, involving as it did the relative concentration of labour in towns and the comparative depopulation of the country, involved also a concentration of money, and a filling of the great channels of trade from the little streams and wells of the country.[1] The efficiency of money was largely increased, and so far —apart from debasement—prices would tend to rise, and

[1] *Cf.* Cliffe Leslie's argument, *op. cit.*

would rise even if the debased money, as Cliffe Leslie supposed, simply displaced the old fine silver. Subsequently the increase in silver increased the quantity, and other causes stimulating circulation increased the efficiency of money more than in proportion to the increase in the work to be done.

In recent years the most notable disturbances in relative prices (apart from the special depreciation of silver already examined) are due to improved transport, tending to lower the prices of various commodities, and to a relative rise in the prices of most kinds of labour. It is probable that the relatively high value of labour — that is to say relatively to commodities — has caused a greater demand for metallic money, and this may well be one of the causes of the appreciation of gold. Money wages would have risen higher nominally, and commodities would have fallen less, if other general causes had not been at work, also tending to produce a fall.

§ 7. *The Effects of Movements in General Prices — General Conclusion.* When we take a wide historical survey we do not find any uniform connection between general progress and appreciation or depreciation of the metal which constitutes the standard of value. This result might be theoretically anticipated from the fact that changes in the measure of values can only indirectly affect production and consumption, and once the changes have been completely effected, with all the consequent readjustments in monetary contracts, it is a matter of indifference whether general prices are high or low. Stability of value is no doubt desirable compared with instability, especially if that instability is due to the arbitrary influence of governments or to other causes which can be foreseen or allowed for. The instability of value may, however, in some cases be simply one of the signs of progress; as, for example, a rise of prices due to an expansion of credit and banking on a sound basis, or a fall in prices due to the expansion of trade, or to the development of new countries caus-

ing an increased demand for money relatively to the supply.

As a matter of history we find the gradual breakdown of the mediæval system from the thirteenth to the fifteenth century accompanied by a gradual appreciation of fine silver, although, as already pointed out, prices remained comparatively stable, owing partly to a corresponding depreciation in the coinage. The transition from the mediæval to the modern period was marked by a great rise in prices, but it is obvious that this rise in prices in itself was of minor importance as regards progress compared with such forces as the discovery of America, the extension of trade and manufactures, the Reformation, the break-up of feudalism, the invention of printing, and the growth of constitutional liberty.

In the nineteenth century we have in England progress in some directions with retrogression in others: the progress being on the whole less marked during the depreciation of the bank restriction than during the appreciation of the next quarter of a century; whilst that of the third quarter, with its high level of prices, is certainly less than that of the fourth, with its low level. The balance of progress during the century as a whole — whatever measures are adopted — is undoubted, but the precise influence of general prices is difficult to determine, and from time to time has been greatly exaggerated.

CHAPTER IV.

PROGRESS AND RELATIVE PRICES.

§ 1. *Progress and Relative Prices.* "From the high or low money price of some sorts of goods in proportion to that of others in any country at any time," says Adam Smith, "we can infer with a degree of probability that approaches almost to certainty that it was rich or poor, that the greater part of its lands were improved or unimproved, and that it was either in a more or less barbarous state, or in a more or less civilised one."[1]

Adam Smith himself gives some remarkable illustrations of the fruitfulness of this test of economic progress; and the advances made, especially in recent years, in every department of economic history, ought to make similar enquiries still more productive. The value of the great work of Thorold Rogers can hardly be overestimated from this point of view, and his observation[2] that the laws which govern prices will be seen more clearly in mediæval records than they could be in a modern price current, is specially applicable to relative prices. It is certain, at any rate, that the records of relative prices in England from the middle of the thirteenth century to the end of the nineteenth must afford ample material, both for the verification of the theory of value, and for the application of that theory to the economic interpretation of history. The changes that have occurred in the methods of production and transport during the last century are best understood when regarded from the point of view of development, and are best illustrated when contrasted with the comparatively simpler and slower changes of the past. The longer the

[1] *Wealth of Nations*, Bk. I., Ch. XI.

[2] Preface to *History of Agriculture and Prices*, Vol. I., p. x.

period of their culmination, and the greater the influence of the counteracting causes to be overcome, so much the greater does the force of the fundamental economic causes appear. If the modern position is approved, that the principal differentia between normal and market values is to be found in the element of *time*, it stands to reason that the continuous records of centuries will reveal the influence of this element more clearly than speculations on the future based upon a survey of the present. The history of relative prices is also of service in showing the complexity of economic conditions, even in periods which we are accustomed to regard as primitive. Above all (again to adopt modern terminology), the history of relative prices is the history of the law of substitution. The discovery and the adoption of substitutes is one of the principal agencies in economic progress; and in the concrete, the substitution is shown by a disturbance of relative prices. This law of substitution is as effective and as apparent in demand as in supply — in consumption as in production. Even as regards the primary wants — where habit is strongest — there is a tendency to substitute the cheaper for the more expensive modes of satisfaction — *e.g.*, in food, drink, clothes, fuel — although for a very long time custom, fashion, or ignorance may retard the process. In luxuries, where fashion very often rather favours novelties, the effect of cheapness is still more marked.

In the following sections I propose to notice some important changes in relative prices which throw light on the nature and causes of economic progress, especially in England during the last seven centuries. Economic progress is necessarily so complex that it seems preferable in dealing with relative prices to take concrete facts as the basis, rather than to start with preconceived theories and simply search for suitable illustrations.

Adequate guiding hypotheses are provided by the laws of value already considered.[1]

[1] *Cf.* Bk. III., Chs. I.-X.

§ 2. *The Relative Prices of Agricultural Produce—Grain.* When Adam Smith wrote, the average quantity of corn imported did not exceed one part in 571 of the annual supply, and he expressed the opinion that if the importation of foreign cattle was made ever so free, so few could be imported that the grazing trade of Great Britain would be little affected by it. Although before the free-trade era in food, foreign imports had in some years been considerable (*e.g.*, in 1829–1830), on the whole, it may be said that up to the repeal of the Corn Laws, the prices of agricultural produce were mainly determined by the conditions of demand and supply in the country itself. At the present time prices depend mainly on foreign conditions. From 1895 to 1898 the average annual production of wheat in the United Kingdom was about 7,000,000 quarters, whilst (excluding flour) about 15,000,000 quarters were imported annually. In addition there were about 20,000,000 cwt. of flour.[1] The total importation of agricultural produce was in 1898 about £175,000,000, or nearly 40 per cent of the total imports.

Before the era of free trade, however, foreign trade affected the prices of wool and hides, and also, through the bounties on the export of corn, to some extent the prices of corn. Still, on the whole, it may be said that, as regards agricultural produce up to the middle of the nineteenth century, England was in the position of an isolated country, whilst, since that time, foreign influences have been predominant.

The following table, which I have deduced from the averages of Thorold Rogers, gives the relative values of the principal kinds of grain produced in England during the mediæval period. The price of wheat per quarter is in every case taken as 100, and the other prices per quarter are adjusted in proportion.

[1] A quarter of wheat weighs (in official statistics) 4.28 cwts., and is said to yield 13 lbs. of flour to 14 lbs. of grain.

	Wheat.	Barley.	Oats.	Peas.
1260–1400	100	73	42	65
1401–1540	100	71	40	62
1541–1582	100	71	39	63

This constancy in the relative values of wheat, barley, oats, and peas over a period of three centuries is very remarkable. It might, perhaps, be thought at first sight, that we have simply an example of mediæval "customary" prices; but a reference to the actual prices on which these averages are founded shows that not only prices, but relative values, oscillated between wide ranges.[1] There were great variations in market values, both annually and in decennial periods, whilst the normal prices were in the proportion of about 4 to 3. Accordingly, the constancy of normal relative values cannot be explained by any simple reference to "customary" prices.

Similarly it may be shown that the constancy of the proportion is not to be explained by a simple reference to the law of indifference, or that our ancestors consumed these grains indifferently at these normal proportions. The relative capacity of the respective grains in providing food for man exercised, no doubt, some influence. Taking barley and wheat, for example, it is true that a bushel of barley weighs less than a bushel of wheat (in mediæval times probably the proportion was 50 to 58½ lbs.),[2] and whilst barley is said to give 12 lbs. of flour, wheat gives

[1] Thus, for example, the average price of wheat from 1260 to 1400 is 5*s.* 10¾*d.* per quarter, and of barley 4*s.* 3¾*d.* per quarter; *i.e.*, a proportion of 100 to 73. But in 1315 wheat was 14*s.* 10½*d.* and barley 13*s.* 1*d.*, a proportion of 100 to 88; and in 1316 wheat was 15*s.* 11⅞*d.* and barley 8*s.* 9⅝*d.*, or 100 to 55. Again, in 1287 wheat was 2*s.* 10½*d.* and barley 2*s.* 6½*d.*, a proportion of 100 to 88. Thus wheat fluctuated between 6*s.* and 2*s.* 10*d.*, and barley between 13*s.* 1*d.* and 2*s.* 3*d.*

[2] These figures are taken from McCulloch's *Dictionary of Commerce* (Articles Barley and Wheat).

13 lbs. to the 14 lbs. of grain; calculated on this basis, the food capacity of a bushel of barley is about 80 per cent that of wheat.[1]

In the mediæval period, however, the principal use of barley was to make malt, although it was no doubt also used for fattening animals (especially pigs) and for feeding poor men (occasionally monks). We may say without much exaggeration that in the mediæval period people ate the wheat and drank the barley.[2] Accordingly, if the constancy of the proportion is to be attributed to custom, we must suppose that the mediæval man had a habit of drinking so much beer to so much bread, and Falstaff must have had an uneasy feeling that he had transgressed the fashion of the times in this respect.

We cannot, however, be satisfied with any explanation which refers solely to demand; we must also consider supply.

Taking the whole period, the rotation of crops in the main followed the custom adopted in the three-field system, the typical order being wheat, barley, fallow; oats, beans, and peas being partially substituted for barley, and vetches sometimes being sown with the wheat.

Thus the grain crops must be regarded to a great extent rather as joint products than as alternatives; and in this way, for example, the supply of barley relatively to wheat would remain comparatively constant.

We have then, on the whole, stationary methods of production and customary adjustments of demand, and the stability of the normal values is so far accounted for,

[1] According to Atwater and Bryant there is very little difference between the food capacities of barley and wheat — the former having 1640 the latter 1675 *calories per lb.*; the proteids in barley are 10.5 in wheat 11.4 per cent. *Report on the Chemical Composition of American Food Supply. U. S. Department of Agriculture* 1899.

[2] On the mediæval beer-drinking, see Professor Maitland's *Domesday Book and Beyond*, p. 438. Some of his calculations, *e.g.*, half a gallon daily to every mouth in England, are criticised in A. H. Inman's *Domesday and Feudal Statistics*, p. 117; but practically the only substitute for beer was water.

	Wheat.	Barley.	Oats.	Peas.
1583–1702	100	54	36	60
1703–1765	100	62	39	—
1765–1854	100	54	36	—
1854–1856	100	58	40	—
1856	100	71	43	—
1854–1866	100	68	45	—
1867–1887	100	88	53	—
1888–1897	100	90	62	—
1899	100	100	65	—[1]

though it is apparently impossible to determine the causes of the exact proportion. This apparent impossibility is confirmed by considering subsequent periods.

It is remarkable that from 1583 to 1702 the proportion of wheat to barley becomes 100 to 54 compared with an average of 100 to 72 in the three preceding centuries. This fall in the relative value of barley can only be accounted for by some considerable disturbance in the relations of supply and demand. On the side of production, however, there seems to be no sufficient reason to account for the change. Any improvements that are recorded are not very great (*e.g.*, enclosures for tillage, and the introduction of the turnip and artificial grasses had little effect till the eighteenth century), and are not such as to indicate a relative increase in the supply of barley or decrease in that of wheat. Accordingly, the explanation must be sought for on the side of demand. In the mediæval period wages were relatively high, and the poor man

[1] The table has been deduced from the averages of Rogers for 1583–1702, from the tables quoted in McCulloch's Dictionary for 1775–1866, from Tooke and Newmarch, *History of Prices*, 1854–1856, and from Mr. Sauerbeck's index numbers, 1867–1899. Eden's *State of the Poor* gives a table of Wheat and Malt, from 1595 to 1795 (Vol. III., Appendix LXXI.), from which it appears that the ratio of wheat to malt was 100 : 57 from 1595 to 1685, and 100 : 63 from 1686 to 1795. This would give a probable ratio for barley of 100 : 52 in the first period and 100 : 59 in the second.

was not robbed of his beer by taxation In the later period under review there was, according to the records of Rogers, a very great fall in the wages of labour, and when wages rose, toward the end of the period, the natural demand for beer was checked by taxation — a tax being first imposed in 1660, increased in 1694, and supplemented by a duty on malt in 1697.

This fall in the demand for beer, regarded as a symptom of low wages, is naturally accompanied by an increase in the use of the cheaper kinds of bread, and with the common people barley is said to have been substituted very largely for wheat. If, as is also maintained by Rogers, the population was doubled during the period, the fall in wages is also partly accounted for, and the relatively high prices of wheat probably points to an increase in the wealth of the upper and middle classes. That there was a relative increase in the demand for wheat is also shown by the fall (though not so great as in barley) in oats and peas.

With the imposition of taxes on beer we have official statistics, and we find that whilst from 1684 to 1693 nearly 7,000,000 barrels of ale were annually charged to duty, from 1694 to 1703 the amount had fallen to less than 5,500,000.

From 1716 to 1765 there was a period of very good harvests, compared with the preceding 50 years, and wages were relatively high.[1] The ratio of barley rises from 54 to 62.

Then followed the period of the industrial revolution, the consuming power of the labouring classes being diminished by a series of bad harvests, great wars, and relatively low wages. The taxation of beer was also increased.

As regards the middle and upper classes, there was no doubt also a substitution to some extent of tea and coffee for beer. The consequence was that barley again fell to 54 compared with wheat as 100, and that number remains as the average from 1765 to 1854.

In 1856 the relative rise in barley (or fall in wheat)

[1] Tooke and Newmarch, Vol. VI., p. 440, and p. 302.

commences, which has culminated recently in barley actually obtaining higher prices than wheat.

The recent relative rise in oats is also noteworthy. The effect on the acreage under wheat, barley, and oats is striking, and contrasts with the fixity of the joint production of earlier periods.[1]

The rise in barley is the more remarkable when it is remembered that recently many substitutes have been introduced, both for the manufacture of beer and the feeding of stock. Barley, however, is still supposed to be the principal grain for whiskey.

§ 3. *Hay and Straw.* From 1260 to 1400 Rogers has not obtained much evidence of the sales of hay, and apparently none of straw, both probably being almost altogether consumed by the producers. After 1400, however, the evidence is abundant, the fact in itself pointing to the extension of a money economy even in this department of agriculture. It is remarkable that the average price of a load of hay from 1401 to 1540 is practically the same as that of a quarter of barley. From 1541 to 1582 it is about 10 per cent less, and from 1582 to 1702 about 5 per cent less — that is to say, practically for three centuries this equivalence of the load of hay with the quarter of barley prevails.

I have not been able to obtain the prices for the eighteenth century, but from 1834 to 1856 there is a great rise

[1] Great Britain: —

	Wheat.	Barley.	Oats.	Beans.	Peas.	Potatoes.	Turnips.
	acres	acres	acres	acres	acres	acres	acres
1874.	3,360,300	2,287,987	2,596,384	559,044	310,547	520,430	2,133,336
1899.	2,000,981	1,982,108	2,959,755	249,056	162,751	547,682	1,740,993

The aggregate of the acreage under these crops has fallen from about 12 millions to 9.6 millions, whilst the acreage of oats has actually increased. The acreage under permanent pasture has increased from 13,178,412 to 16,630,347 during the same period.

in hay. The relative prices are hay 86*s.* per load against 32*s.* per quarter for barley, and the latest prices available give 87*s.* (hay) against 25*s.* (barley). The great rise in the price of hay, relatively to barley, had been fully accomplished before the repeal of the Corn Laws; on the average the load of hay being equal to $2\frac{1}{2}$ quarters of barley from 1834 to 1844, and also from 1845 to 1856.

The disturbance of values is mainly accounted for by facilities of transport affecting barley more than hay.[1]

The relation of hay to straw is very constant: 1401 to 1552 hay is a little over $2\frac{1}{2}$ times the price of straw per load, from 1582 to 1702 is under $2\frac{1}{3}$ times, and from 1834 to 1856 about $2\frac{1}{3}$ times; the latest prices giving the same proportion.

§ 4. *Beef and Mutton and Wheat.* A survey of seven

1	Hay.	Barley.	Straw.
	load	quarter	load
	s. d.	*s. d.*	*s. d.*
1401–1540	3.8¼	3.8¾	1.5
1541–1582	9.6	8.5¾	4.1
1583–1702	20.4½	21.3	8.10¾
1834–1854	86	32	37

The influence of changes in the cost of transport may be illustrated by the particular case of New South Wales (Howell, "Statistics of Australian Railways," *Statistical Journal*, March, 1900, p. 100): —

"The great reductions in rates of carriage that have taken place in the New South Wales lines within recent years have not only induced a greater volume of traffic, but have caused agricultural pursuits to be carried further inland. In 1879, 36,249 tons of grain and flour were carried an average distance of 99.63 miles at a rate of 1.03*d.* per ton per mile; in 1895 the rate was reduced to 0.58*d.* per ton-mile, and the average distance rose to 158.58 miles with over seven times the quantity.

"In hay, straw, and chaff, comparing 1895 with 1879, with a fall in rates from 1.48*d.* to 0.42*d.* per ton-mile, the quantity carried became 6.34 times greater and the distance 5.17 greater."

For the purposes of contrast it may be recalled that Arthur Young, in his tour in Ireland, observed that in some places the farmers were burning their straw, for which they deserve to be hanged (*Irish Tour*, Vol. I., p. 42).

centuries shows that for similar qualities there has seldom been any appreciable difference between the prices of mutton and beef. Rogers thinks that in the early mediæval period beef was perhaps a little dearer than mutton, and Eden states that at the end of the eighteenth century mutton was generally about $\frac{1}{10}$ dearer than beef. From 1866 to 1899 Sauerbeck's figures give an average per 8 lb. (in the London meat market by the carcass) of beef 52*d.*, and mutton 57½*d.*, which is just Eden's tenth in favour of mutton. Arthur Young[1] makes beef and mutton the same in his three English tours, viz., 3*d.* per pound; but in Ireland mutton is ¼*d.* a pound dearer, viz., 2¾*d.* against 2½*d.*

Compared with this fixity in the two kinds of butcher's meat, the relation of both to wheat is in striking contrast. The following table of relative values has been calculated on the basis of 14 lb. of beef, the common unit, to 14 lb. of wheat (at 480 lbs. to the quarter).

	Beef.[2] 14 lbs.	Wheat. 14 lbs.
1260–1400	100	50
1400–1540	100	29
1540–1582	100	26
1582–1642	100	40
1642–1702	100	37
1730–1790	100	32
1800–1825	100	30
1830–1860	100	36
1867–1877	100	21
1878–1887	100	18
1888–1897	100	15

§ 5. *Candles and Leather.* It is observed by Vicomte D'Avenel that in the mediæval period candles were naturally dear and shoes were cheap. The connecting link between these prices is found in the leanness of the sheep and cattle. Skins were plentiful, but fat was scarce. Rogers has also called attention to the very high price of hard fats, and to the luxury of any kind of artificial light, and to

[1] *Irish Tour*, Vol. II., p. 75.

[2] The beef is "middling" only for 1867–1897. The average of prime beef would give 100 : 10 for 1888–1897.

the real sacrifice involved in the offerings of candles to the saints.

Practically the only substitute for candles was oil, and it will be found, on reference to Rogers's tables, that over the whole range of his prices (1260–1702) the price of one dozen pounds of candles is about the same as that of a gallon of oil (*e.g.*, 1401–1540 candles per dozen pounds 1*s.* 3¾*d.*, oil per gallon 1*s.* 2½*d.*).[1]

The present price of olive oil is about 5*s.* per gallon, but petroleum (wholesale) is only about 6*d.* per gallon — an enormous reduction, allowing for the change in the value of money.

If we compare the price of candles (the dozen pounds *i.e.* the usual quotation) with beef (the 14 lbs.), the relative values are as follows: Candles (dozen pounds) being taken as 100, in each period the corresponding price of beef (14 lbs.) gives: —

	Candles.	Beef.
1260–1400	100	17
1401–1540	100	43
1540–1582	100	61
1583–1642	100	60
1643–1702	100	68

That is to say, there is a fall in the relative value of tallow compared with the meat, consequent, no doubt, on the improvement in stock — the sheep and cattle became fatter, and were fattened more easily. At the end of the eighteenth century, and up to the conclusion of the French War, tallow was somewhat dearer than beef, but since 1815 it has become cheaper; in 1867–1877 the proportion was 69*s.* per cwt. beef (prime) to 45*s.* per cwt. tallow — the present quotation (1900) being 65*s.* per cwt. beef to 28*s.* tallow.

With reference to oxen and hides in the mediæval period,

[1] From 1260 to 1400 the price of candles is relatively rather higher: candles, 1*s.* 11½*d.*; oil, 1*s.* 0½*d.* to 1*s.* 4¾*d.* But on reference the candles prove to be of a fancy kind, made in Paris, for example.

the hide, to begin with (1260–1350), is 20 per cent of the value of the ox (viz., 2*s.* 4*d.* to 12*s.*), but falls to about 12 per cent (1*s.* 10*d.* to 15*s.*) in 1350–1400, at which proportion it remains till the end of the sixteenth century. It is difficult to estimate the weight of the hides, but if we deduct a quarter from Adam Smith's estimate of 64 lbs. in his day for a good skin, the price will be about the same as that of beef per pound. The Eton prices (1566–1640) give the same price per pound for hides and beef (viz., 2*d.* to $2\frac{1}{2}d.$ per pound); at the end of the eighteenth century (Adam Smith) the relative prices are still the same, and the quotations from 1866 to 1899 (Sauerbeck) give practically the same prices per pound as that of prime beef. The constancy in the price of beef and hides over so long a period and through such vicissitudes is very remarkable.

It is only in very recent years that the price of the coarsest wool, weight for weight, has fallen to the level of the best meat — which shows, perhaps, *inter alia*, that mankind wear and wear out more value in clothes than in shoes.

§ 6. *Houses and Furniture.* Relative prices do not throw so much light on progress in houses and furniture as more direct evidence, because the meaning of "houses" and "furniture" is utterly changed. "I think," said Arthur Young, "the bad cabins and furniture the greatest instances of Irish poverty." His description[1] (1776–1779) might be used word for word of the dwellings and furniture of the English peasants of the early mediæval period. "They are" he says "the most miserable hovels that can well be conceived. They generally consist of only one room. Mud kneaded with straw is the common material of the walls; these are rarely above seven feet high, and not always above five or six; they are about two feet thick, and have only a door which lets in light instead of a window, and should let out the smoke instead of a chimney, but they rather keep it in. The furniture of the cabins is as bad as the architecture; in very many cases consisting only

[1] *Tour in Ireland*, Vol. I., p. 47.

of a pot for boiling their potatoes, a bit of a table, and one or two broken stools. Beds are not found universally, the family lying in straw, equally partook of by cows, calves, and pigs.

"In my rides about Mitchelstown I have passed places on the road one day without any appearance of habitation, and next morning found a hovel filled with a man and woman, six or eight children, and a pig."[1]

Arthur Young, however, points out that the Irish spend more on food than on clothes, and on milk than on furniture, and the mediæval mud hovels were also, in general, scenes of rude plenty.

§ 7. *The Price of Wool.* The price of wool is of great interest in connection with the development of agriculture, of foreign trade, and of a most important manufacture. For different purposes, the relative value of wool may be expressed in relation to different commodities, and first in relation to *meat.*

To begin with, the price of wool was very high compared with that of meat. From 1260 to 1400 wool per pound is more than 12 times the price of meat; from 1400 to 1582 it falls to 5 times; from 1582 to 1702[2] it is 4 times, from 1730 to 1790 less than $2\frac{1}{2}$ times the price of meat. Arthur Young calls attention to a great fall in the price of wool about 1779, viz., to about 6*d.* per pound, which is about double the price of meat, and Adam Smith thinks that the price of wool has been subject to an unnatural degradation through the laws forbidding exporta-

[1] *Tour in Ireland*, Vol. I., p. 40. *Cf.* Eden, Vol. I., p. 553, etc., on the building of mud houses in Dumfriesshire in a few hours. I am informed (1900) that in parts of Lewes, where new houses have been built for the crofters, with grates and windows, the chimneys and windows have, in some cases, been stopped up, and the fire made in the middle of the floor, — such is the force of habit in the necessaries of fire and shelter.

[2] For 1582–1702 the records of the prices of wool are not so full as for the earlier period. The averages given are calculated from Rogers and Smith's *Memoirs of Wool.*

tion. Adam Smith, also points out that the production of wool has not suffered much in quantity because it is a joint product with meat. There was, however, probably a deterioration in quality, especially during the high prices of meat in the first quarter of this century.[1]

Up to the end of the eighteenth century, the imports of wool were comparatively small, and consisted mainly of fine Spanish wool. According to the estimates usually given,[2] the amount of Spanish wool imported did not much exceed 3,000,000 of pounds weight before 1800, whilst the production of English wool was probably 40 times as great (half a million of packs at 240 lbs. per pack).

During the present century, however, the importation of wool has increased enormously. The total home production of the United Kingdom is about 140,000,000 of pounds, whilst the average imports of the last five years are over 700,000,000 lbs., of which about 65 per cent came from Australasia. The total import has more than doubled since 1874, although it must be observed that little more than half of the total import is retained for home consumption.

Quite recently the connection between wool and meat has been illustrated by the course of prices in London. In 1872 fine colonial wool reached a price of 43*d.* per pound, being nearly double of the price five years before. It retained a comparatively high price for some years, but during the last decade prices have been low. As a consequence the farmers turned their attention to the development of meat, and since 1875 the production of merino wool has lessened (aided recently by the drought in Australia), and the price is now (1900) double of what it was five years ago. The adjustment of meat and wool to relative prices is characteristic of progressive and adaptable agriculture.

The exportation of English wool was prohibited till 1825. It now amounts to more than one-seventh of

[1] For prices of wool and meat, see also Palgrave's Dictionary, p. 636.

[2] *Report of Lords' Committee*, 1828.

the annual home production, viz., 22,000,000 out of 140,000,000.

In considering the relative value of meat and wool, the relative weights of the fleece and the carcass, as well as the time requisite for maturity, must be considered. In the mediæval period (1260–1400) the average weight of the fleece is given by Rogers at 1 lb. $7\frac{3}{4}$ oz. This gives a value of nearly 5*d.* to the fleece against 1*s.* 5*d.* for the average "mutton" (*i.e.*, wether), and 1*s.* 2*d.* for a ewe.

The quality of the mediæval wool, as may be seen from existing specimens of cloth, was coarse, and the fibre was full of hairs.

A striking illustration of agricultural progress, as measured by wool, is found in the fact that at present a fleece of the finest wool often weighs more than the whole of the mediæval sheep — bones and all.

§ 8. *Other Records and Readings of Agricultural Prices.* There are many other records of prices of the products, the instruments, and the materials of agriculture which would serve to fill in the details of the picture of agricultural progress. In 1270, for example, rabbits were sold at 5*d.* each, whilst the highest price for a sheep ("mutton") in the next year was only $11\frac{1}{2}d.$ For a long period after this rabbits are sold at 6*d.* to 8*d.* the couple — from 1400 to 1540 the average is 5*d.* per couple. In 1405 the skins are 1*s.* 4*d.* the dozen, in 1460 only 4*d.*, in spite of the great demand for fur trimmings. It may be inferred that in the thirteenth century rabbits were evidently a novelty, in the fifteenth they were abundant.

Gardens were considered as objects of value; at any rate, as early as 1279, and before the end of the thirteenth century, Eden is of opinion[1] that England produced most of the useful vegetables — certainly onions, leeks, mustard, fine peas, and beans. The clergy were great gardeners. Orchards were numerous, and most fruit trees are ascribed to the Romans. From 1260 to 1400 the price of cider is

[1] *State of the Poor*, Vol. I., p. 51.

from a halfpenny to a penny a gallon (the average of common wine being 4*d.*), and apples are about a penny per bushel. The price of apples, however, oscillates between the extremes of 3*d.* a bushel, *e.g.*, 1336 and ½*d.*, *e.g.*, 1339. In the former year wheat was below the average, in the latter above, from which it may be inferred that an inclement spring destroyed the apple blossom in 1336, and that the spring of 1339 was unusually favourable.

The records of the prices of salt, so long as salt was obtained mainly from evaporation of sea-water by solar heat, are still more instructive, and supplemented by other prices (*e.g.*, grain, stock), a fair idea of the course of the seasons may be obtained. The importance of the seasons, as affecting prices in England up to the free-trade era, is one of the subjects best worked out in the great work of Tooke and Newmarch.[1] The relative decline in the importance of the seasons, with the extension of the area of supply of grain, may be shown by a remarkable example. The year 1879 was the coldest of which we have any instrumental record in these islands, and there was a great failure of the harvest. So easily was the deficit met, however, by imports from America, that the price of wheat only rose to 53*s.* 6*d.* as compared with an average of 51*s.* for 1871–1880.

Under old conditions there would have been a famine,[2] as there was in 1698, 1800. I may here point out, also, that the extremes of abundance and scarcity prices were much greater at the end of the eighteenth century than they were a century before. In 1688 wheat was 17*s.* 10*d.*, and in 1698 53*s.* 4*d.*, and in 1779 wheat was 30*s.* 1*d.* in 1800 134*s.* 9*d.* This again is partly a sign of the increase of national wealth, partly it is a consequence of the extension of poor relief.[3]

[1] See next chapter.

[2] *An Essay on the Price of Wheat at Haddington, 1627–1897*, by R. C. Mossman, gives graphical illustrations of the inverse relations of prices and warmth in the self-dependent era.

[3] See Tooke's *History of Prices*, Vol. I, p. 14, 72.

Bees were of great utility in the mediæval economy. In the thirteenth century sugar was sometimes 2*s.* per pound, and the average was above 1*s.* The higher figure is 50 times the price of meat, or as costly as 24 bushels of apples. Honey was the usual substitute for sugar, and rents in honey were common from very early times. Wax for candles was dear, but fell in relative value after the Reformation,[1] and rose a little under the influence of Laud.[2]

The prices of fish are extremely interesting. In mediæval times the prices were relatively extremely high, partly owing to the general use of salt meat,— fish being an agreeable change, — partly to ecclesiastical influences, and partly to difficulties in working fisheries. There is one remarkable exception: the price of oysters is recorded at one halfpenny per hundred, which may be contrasted with a pike at 1*s.* 6*d.*; an enormous price for so coarse a fish, even if of unusual size.

Many of the prices of edibles point to changes in taste, *e.g.*, in the sixteenth century, in the same account, a swan is 2*s.*, a wether 2*s.* 4*d.*, a curlew is 1*s.* 4*d.*, a partridge 2*d*, a dozen larks are 5*d.*, and a dozen pigeons 10*d.* In 1572 four and twenty blackbirds cost 2*s.*, being as dear as six of the best chickens, a heron is 2*s.* 6*d.* whilst the best goose is only 1s. 2*d.* In no period of English history, however, have the prices of rare articles of food ever approached the insane prices paid by the gourmands of the Roman Empire.[3] The gluttony of the most wealthy English was never fantastically morbid.

The prices of eggs are recorded by Rogers from 1260 to 1702. The mediæval unit is the great hundred (120). From 1260 to 1350 a quarter of wheat will purchase 16 great hundreds of eggs; 1350 to 1400, 12 hundreds; 1400 to 1540, 10 hundred; 1540 to 1582, $5\frac{1}{2}$ hundreds; 1583 to 1642, 11 hundreds; 1643 to 1702, 12 hundreds. The great rise in

[1] Rogers, Vol. IV., p. 719. [2] *Ibid.*, Vol. V., p. 753.
[3] *Cf.* Adam Smith (McCulloch), p. 100, 1.

the price of eggs in 1540–1582 (from 6*d.* to 2*s.* 6*d.* per 120) is proportionately in excess of that of any other article. It was no doubt due to the great displacement of the rural population, and confirms the view that the general rise in prices was not mainly due to the debasement of the currency.

In 1899 there were imported into the United Kingdom upward of 16,000,000 great hundreds of eggs (the old unit is still used), of a value of about £5,000,000. This works out at 6*s.* 3*d.* the great hundred, which with wheat at 25*s.*8*d.* makes a quarter of wheat equal 4 hundreds of eggs —the highest relative value of eggs yet attained. The modern imported egg, however, is certainly inferior in most respects to the fresh country egg of the earlier periods, and with similar eggs the price would probably give less than 2 great hundreds to the quarter of wheat. Fourier's proposal to pay off the English national debt by hens' eggs no longer appears ridiculous.

It would be interesting to trace, in greater detail, and with other instances, the movements of relative prices in agriculture, and the corresponding changes in agricultural production, *e.g.*, as shown by the gradual improvement in stock indicated by the increasing divergence from the average in the prices of superior specimens for breeding.[1]

The redistribution of the industries of the people, and the development of foreign trade, may also be connected with the disturbance in relative agricultural prices; but this aspect of the subject is treated in connection with other prices.[2]

§ 9. *Wool and Cloth.* The history of the manufacture of cloth is one of the best examples of economic development. From the vast mass of material I select one or two examples specially connected with relative prices.

Over very long periods there is a marked fall in the price of cloth compared with the wool of which it is made; in other words, the value of the raw material rises

[1] As I write, a filly of Persimmon has been sold for 10,000 guineas (£10,500). [2] See the following sections in this chapter.

(or the cost of the manufacture falls) in comparison with the finished product. In making such a comparison regard must of course be paid to quality, and in general changes in quality can only be estimated very roughly. On the whole, however, it may be taken that the quality of cloth (of the same material) has also improved with the increasing cheapness of manufacture.

The improvements in manufacture have extended to all qualities, but relatively have been greatest in the finest. Thus the fall in the difference between fine and coarse cloth is one of the signs of economic progress. The price of some kinds of cloth described by Pliny passes all credibility, says Adam Smith. And this high price he justly ascribes to the want of mechanical invention, and this again to the prevalence of slavery.[1]

The same idea of the progress of the English woollen manufacture may be obtained from taking the estimates of the aggregate values of the raw material and of the manufacture at different periods. In Smith's *Memoirs of Wool*[2] (1747) it is calculated that "upon a Medium" wool is improved fourfold in manufacture, and the writers of political arithmetic in the preceding century estimated the value of the wool yearly shorn to be £2,000,000, and that of the woollen manufacture £8,000,000. From 1859 to 1861 the average annual value of the woollen and worsted manufactures is estimated at £40,000,000, the cost of the "wool" consumed being about £19,000,000. For 1880 to 1882, however, the proportions are £53,000,000 to £23,000,000.[3] The "wool" includes certain quantities of rags, cotton warps, and woollen yarn, and the products include yarns and worsteds as well as cloth. Still, making all allowances, the fall in the cost of manufacture is very great.

§ 10. *Cotton Wool and Cotton Cloth.* The displacement of wool by cotton — as the first national manufacture —

[1] Adam Smith, Bk. IV., Ch. IX. [2] Vol. II., p. 561.
[3] Ellison's *Cotton Trade of Great Britain*, p. 124.

constituted a revolution in English industry and commerce, and affords abundant examples of the power of changes in relative prices. The history of the cotton manufacture is full of romantic incidents and startling contrasts, and nowhere is the powerlessness of the legislature to interfere with natural values more conspicuous nor the desires and weakness of vested interests more pronounced. As confirming one striking feature in the general view of economic progress, it is interesting to notice that a thousand years before the invasion of Britain by the Romans, the leading peoples of India were luxuriating in garments so fine as to be called "woven wind." And what is still more surprising is that the cotton, to which this marvellous spinning and weaving were applied, was the much-despised Surats and still more despised Bengals of modern times. (Ellison.) These fabrics were as fine as any that can be turned out at the present day by the most perfect machinery of Lancashire, and indeed, Lancashire still waits on invention to satisfy many of the immemorial fashions of the East. The cultivation of the cotton plant and the art of spinning cotton gradually spread through Persia, Turkey, Greece, Egypt, North Africa, and Spain (under the Saracens) — the slow march of progress from the East to the West under the leadership of Turks and Saracens is impressive — until, toward the end of the sixteenth century, cotton spinning was established in England. It is noticeable, however, that it was not till the close of the eighteenth century that cotton yarn was woven into cloth except with warp spun from wool, flax, or silk. The Manchester cottons of the fourteenth century and onward are mixtures of cotton and wool. For centuries the principal use of imported cotton was to make candle-wicks. The first arrival of India cotton fabrics took place in 1631, and very soon an outcry was raised that the woollen and linen trades would be ruined. In 1700 the import of printed calico was prohibited (with, *inter alia*, a penalty of £200 on the wearer), and in 1736, goods being all cotton,

and therefore presumptively foreign, were liable to a duty of 6*d.* per yard.

The first piece of British calico was made in 1773 (Arkwright), and orders for goods were flowing in, when it was discovered or remembered that the wearing of printed calico was illegal, and that any goods all cotton were liable to a high duty. An act of Parliament to reduce the duty and to repeal the prohibition was passed "against the strong opposition of the manufacturers of Lancashire," who had vested interests in mixed fabrics.

The price of cotton relatively to woollen fabrics is interesting in two ways. To begin with, the Indian fabrics were fancied in spite of their high prices, and De Foe, of all people, complained of the "fansie" of the people running upon East India goods, so that he avers, half of the woollen manufacture was lost. The prohibition of wearing India printed calico (unless dyed all blue like the body of an ancient Briton) led to the imitation of cotton with linen and other material, and it was the popularity of the imitations which stimulated the attempts to invent machinery capable of producing fabrics entirely of cotton.

Once, however, the cotton manufacture was fairly established at the close of the eighteenth century, it was the relatively low prices[1] which led to the enormous expansion of the trade, which was only seriously checked during the cotton famine of the American Civil War.

It was the rapid growth of the cotton manufacture that carried England through the great Napoleonic wars, and the secret of the success was the fall in relative values brought about by the great inventions in spinning and weaving. Before 1815 the new manufacture of cotton had reached an annual value of £30,000,000.

[1] In 1779 yarn of 40 hanks to the pound cost 14*s.* to manufacture, in 1812 only 1*s.*; in 1786 yarn of 100 hanks to the pound cost to manufacture 34*s.*, in 1812 only 2*s.* 10*d.*

The progressive fall in the cost may also be seen by considering the proportionate cost of the raw material. In 1779, in the coarser yarn, the

Further great improvements in spinning machinery were made between 1820 and 1830, and in weaving machinery between 1830 and 1845; since that time the greatest improvements have been in transport and the development of foreign trade.

The present importance of the cotton manufacture to the United Kingdom is shown by a few significant figures. The total export of cotton fabrics and yarn in 1899 was about £58,500,000, the amount of grain and flour imported being £58,000,000. Thus the exports of cotton more than pay for all the grain and flour. It is true that the raw cotton imported costs over £27,000,000, but still the net balance of the export is over £30,000,000, to say nothing of the home market. Our total exports of woollen and worsted manufactures for 1899 only reach £21,500,000 which falls, short of the value of the wool imported by £2,000,000.

In the beginning of the cotton manufacture the aggregate value of cotton, woollen, and linen goods produced in the United Kingdom was about £22,000,000: (say) woollen £17,000,000, linen £4,000,000, and cotton £1,000,000; of recent years the value has been about £170,000,000, woollen £59,000,000, linen £20,000,000, and cotton £100,000,000. Thus the value of the cotton manufacture has increased a hundred fold against a threefold increase of wool. (Ellison.) If the attempts to protect wool against cotton had succeeded, the whole course of British history would have been changed, and also Britain's place amongst the nations of the world.

Two other points deserve special attention: *First*, the great fall in the price of the raw cotton, in spite of this

cost of the cotton was 2*s.* out of 16*s.*; in 1812 it was as much as 1*s.* 6*d.* out of 2*s.* 6*d.*

In 1882 the selling price of yarn (40 hanks to the pound) was 10½*d.*, the raw material costing 7⅛*d.*, thus showing a fall in the cost of manufacture from 14*s.* to 3⅜*d.*; and in 1885 the relative prices were 9¼*d.* and 6¼*d.*, leaving 3*d.* for cost of manufacture.

The figures relating to cloth are equally interesting, *e.g.*, calicoes selling at 13*d.* per yard in 1815 having fallen to 2½*d.* per yard in 1856.

enormous increase in its use.[1] From 1890 to 1899 the average of middling American was 4¼*d.* per pound; from 1793 to 1800 prices of American cotton ranged between 12*d.* and 60*d.* *Secondly*, the number of weeks' consumption in stock of all kinds of raw cotton at 31st December from 1871 to 1880 was on the average 12 with a maximum of 15, whilst from 1811 to 1820 the number of weeks' stock was on the average 37 with a maximum of 69, and in the next ten years (1821–1830), the average stock was still 36 weeks. The organization of industry renders unnecessary or wasteful the accumulation of circulating capital in the shape of raw material.[2]

The expansion of the British cotton manufacture to its present dimensions was only possible through the development of machinery and transport, of which the raw materials and power are still derived mainly from coal and iron.

§ 11. *Wood, Coal, and Iron.* Fire is not only a necessary of life in providing warmth and in cooking food, but is still the foundation of most of the arts in the working of metals. In the economic history of England we find that for household purposes wood was for centuries the ordinary fuel, supplemented in some places by turfs and sedge, and partially by charcoal and sea-coal. With regard to firewood, the proverb holds good literally, that there are fagots and fagots, and as Rogers found, prices are hard to

[1] See Ellison, *op. cit.*, Appendix, Table No. I., for prices from 1811 to 1884.

[2] "The cotton plant," says Adam Smith, in discoursing on the discovery of the West Indies, "afforded the material of a very important manufacture, and was at that time to Europeans undoubtedly the most valuable of all the vegetable productions of those islands. But though in the end of the fifteenth century the muslins and other cotton goods of the East Indies were much esteemed, the cotton manufacture itself was not cultivated in any part of it" (Book IV., Chap. VII., McCulloch's edition, p. 251). Adam Smith makes several references to the cotton manufacture (*Ibid.*, pp. 251, 290), and it is inexplicable how his editor, McCulloch, should have given currency to the oft-quoted opinion that Dr. Smith has not made any allusion, either here or in any other part of his work, to the cotton manufacture (*Ibid.*, p. 114).

interpret, but the general movement is clear. "Coals," said Adam Smith, "are a less agreeable fuel than wood, and they are said to be less wholesome. The expense of coals, therefore, at the place where they are consumed must generally be less than that of wood." Sea-coal indeed displaced wood simply by its increasing relative cheapness.

The transition to sea-coal was made through charcoal — charcoal burning is one of the most ancient of industries — and the relative prices show the process of displacement. During the whole period from 1583 to 1708, says Rogers, the price of charcoal steadily rises, till in the last thirty years it is regularly nearly three times as dear as it was at the beginning. To take a particular example, the average of sea-coal at Eton from 1643 to 1652 was 39*s.* 2*d.* per chaldron, the average from 1693 to 1702 was 32*s.* 1*d.*, whilst charcoal rose from 29*s.* 2½*d.* the load in the earlier period to 50*s.* in the later.

The substitution of sea-coal for other forms of fuel for domestic use is, however, of comparatively small importance compared with the use of coal in the arts, and especially in working iron.

If the spirit of man is the soul of industry, iron and fire are its bones and its breath. The records of Rogers show that iron and steel (asser or acier is the Anglo-Norman) are the most important materials in the mediæval economy. The bailiff buys the raw material, and the village smith fashions it. The most frequent evidence of the seasons is the increased cost of iron, due to the dryness of the summer and the greater wear of the ploughs. The price of iron rises, just as the price of salt falls, through a dry season.

"In the whole range of the science of public economy," says Porter, "there is no principle more clearly demonstrable than the advantage of possessing, at the cheapest possible rate, the raw materials of manufacture; and of all the materials there is not one (unless indeed food be considered) which is of more universal importance than iron."[1]

[1] *Progress of the Nation*, p. 290.

Iron was imported from Spain in 1282, and Rogers repeats a story that the last considerable contract for Spanish iron was for the rails round St. Paul's in the reign of Anne. That story may once have been true; but since the death of Queen Anne much has happened, and the United Kingdom now imports from Spain more than £3,000,000 of iron ore. The principal English iron for a long period was known as "forest" iron. The name is significant — "forest" iron shows how narrowly England escaped the loss of industrial supremacy.[1] Fortunately for the development of her manufactures, after England had wasted her forests, the use of coal was rendered practicable, and coal and iron fields were discovered to be in close proximity.

The difficulty of working iron in earlier periods is shown by the relative prices of iron and lead. Throughout the whole of the period covered by Rogers's researches (1260–1702) the price of wrought iron is about double that of lead, whilst during the last thirty years (1870–1900) the price of lead has been more than double that of iron.

There was a great fall in all hardware prices from 1820 to 1868, indicating great improvements in manufacture.

The present position of the British coal and iron trades is of peculiar interest, if not of danger. The total exports from the United Kingdom of iron and steel in 1899 was over £28,000,000, of which nearly £5,000,000 was pig-iron. In addition, machinery to the value of over £19,000,000, and coals and cinders over £23,000,000 were exported. The exports of coal alone exceeded by nearly £2,000,000 the whole of our exports of woollen

[1] At the beginning of the eighteenth century it is reported that two-thirds of the iron in use was imported, and that the forests were being destroyed. In spite of legislation, or in lack of the right kind, the destruction of the forests continued, much to the alarm of those who saw in the oak the mainstay of the British power of the sea, to say nothing of the tannin of the bark for leather.

goods, or, stated in another relation, our exports of coal just paid for our imports of wool.

The exhaustion of our coal and iron fields may perhaps be met by the principle of fortuity, as in the case of our forests or by the progress of science; it does not seem as if any serious attempt would be made to meet it by legislation.

It is, perhaps, worth recalling that Adam Smith, whilst disapproving of the prohibition of the exportation of wool, strongly approved of heavy export duties. He even gave such duties the highest praise. His reasoning might be applied with still greater force to coal. The effects of the recent rise in the price of coal and of the opening of new markets are too fresh to require further emphasis. It may, however, be proper to indicate that in matters of finance for every *pro* there is a *contra*, and that development under the guidance of taxation has not been very successful in the past. A check to exports means a check to imports an export duty on coal might be met by selling at higher prices to the home consumer than to the foreigner, and to check production, the duty must lower prices considerably. Above all such a duty would appear, to the foreigner at any rate, as an infringement of free trade.

The difficult problems of taxation are, however, reserved for the next book.

The consideration of the prices of iron and coal naturally leads to the consideration of the cost of carriage, and the transition may be made with the observation that Adam Smith approved of bounties being given on the transport of coal from places in which it was abundant to places within the country where it was scarce — another instance of his partiality to theoretical exceptions to free trade.

§ 12. *Prices of Transport and Carriage.* The history of the prices of the transport of all kinds of baggage (including man and beast) forms one of the main strands of the

history of commerce. The records of Rogers again throw abundant light on the earlier periods, and he appears in this case to have been very happy, and at any rate suggestive, in his commentaries. In the first period (1260–1400) the cost of carrying grain by cart with two horses and a man was about a penny a ton per mile,[1] a rate which indicates not only that the supply of such a service was abundant, but that the roads were good. The same rate seems to have prevailed up to 1542, when the general rise in prices began. It must not be supposed, however, that the sweet simplicity of a penny per mile, per ton, was a customary charge; on the contrary, we have the beginnings of classifications according to bulk, value, and "what the traffic will bear." Heavy goods, *e.g.*, tiles and lead, cost something under 2*d.* a mile, while wine varies from 2*d.* to 4*d.* Rogers finds evidence in his prices that after the Reformation[2] the roads deteriorated, and he ascribes their mediæval goodness largely to the influence of the Church, through the necessities of its organisation and the management of its widely scattered domains.

The cost of carriage by river was on the whole about one-sixth of that of land carriage, this difference being one of the chief causes of the growth of the commerce and wealth of London, which drew cheap supplies from the Thames.

From 1583 to 1613 the cost of carriage of a ton of firewood was about $5\frac{1}{4}d.$ per mile, and during the next thirty years $8\frac{1}{2}d.$, and by the end of the century a shilling per ton per mile is a common rate. For more valuable articles and less bulky, the common carrier probably received double these prices.

Water carriage bears its old proportion of about one-sixth of that of land carriage at the beginning of the period (*e.g.*, 1599), and is about 1*d.* per ton per mile, but 50 years later it has risen to 4*d.* (for the same article, the same journey).

The eighteenth century saw not only the beginnings of

[1] Vol. I., p. 658. [2] Vol. IV., p. 711.

improvement in roads but also the institution of canals. It is true that Arthur Young in a celebrated passage describes some roads as "infernal," and the legislation regarding highways bears out his description. When vehicles were allowed to escape with half the usual tolls if the fore wheel and hind wheel together should roll on a space sixteen inches in breadth,[1] the experience of deep ruts must have been considerable. The eulogy of the roads of England by Henry Homer[2] (Young's contemporary) after all only goes to prove that the badness of roads was relative, and that the badness of the beginning was in this estimate about double that of the end of the century. "Everything wears the face of Dispatch" is an odd description of the roads of England before they were made by Telfer and Macadam.

Arthur Young's account of the excellent roads of Ireland during his tour is suggestive. In many respects the agriculture was behind mediæval methods, but the country roads were far better than those of England at the close of the eighteenth century. It is tempting to extend the inference of Thorold Rogers, and to imagine that the roads were good, because Ireland had escaped the Reformation.

It seems, however, that the excellence was due partly to the general use of two-wheeled one-horse carts in place of heavy waggons,[3] and in part due to local management being exercised in the local interest; both, it may be, mediæval customs. The turnpikes of Ireland were not good. "A turnpike in Ireland is a synonymous term for a vile road, which is the more extraordinary, as the bye ones are the finest in the world. It is the effect of jobs and impositions which disgrace the kingdom; the presentment (local) roads show what may be done, and render these villainous turnpikes the more disgusting."[4] Arthur Young's calculations and observations seem to show that in England instead of progress there had been retrogression in the

[1] Macpherson, Vol. III., p. 416.
[2] Cunningham, Vol. II., p. 376.
[3] Young, *Tour in Ireland*, Vol. II., p. 81.
[4] *Ibid.*, Vol. I., p. 116.

matter of transport of heavy goods by roads.[1] The author of the *Progress of the Nation*[2] also records that in 1798 he left the town of Gosport at one o'clock of the morning in the "Telegraph," a "fast coach," and arrived at Charing Cross at eight in the evening, thus occupying nineteen hours in travelling eighty miles — a little over four miles an hour.

By 1837 there were in England 54 four-horse and 49 pair-horse *mail* coaches.[3] The greatest average speed of any was $10\frac{5}{8}$ miles per hour, the slowest 6 miles, and the average $8\frac{7}{8}$. The number of stage-coaches, including mails, in 1837 was 3026, and of this number half began or ended their journeys in London. The fares per mile were 2*d.* to 3*d.*

England had always had the great commercial advantage of easy access to carriage by water either by the sea or navigable rivers; in most places being not more than ten miles distant.

Our *viabilité immense* had always excited the envy of our neighbours and enemies. Although some efforts were made at earlier periods (*e.g.*, before 1066), the greatest era of canal construction in England was during the latter half of the eighteenth century.[4] The Duke of Bridgewater obtained his first Act of Parliament in 1759, and in 1761 Brindley had constructed his "castle in the air," as the scoffers called the aqueduct bridge for his canal over the navigable Irwell, and the wondering spectators saw vessels sailing aloft in the air. Before their effacement by railways, the navigable canals in England alone exceeded 2200 miles in length, 400 miles longer than the navigable rivers.

The extension of the Bridgewater canal to Liverpool affords a good illustration of the economy of transport. The cost of carriage per ton fell to 6*s.* as compared with 12*s.*, the charge by the Mersey and Irwell, and with 40*s.*,

[1] Young, *Tour in Ireland*, Vol. II., pp. 81–83.
[2] Porter, p. 299.
[3] *Ibid.*, p. 303.
[4] Macpherson, Vol. I., p. 289.

the price of land carriage. "Navigable canals," said Adam Smith, "are among the greatest of all improvements," and Macpherson, who confesses he is not often guilty of transcribing poetry, condescends in a footnote to the verse of Mrs. Barbauld.[1]

The substitution of railways for canals is too familiar an instance of the power of relative values to revolutionise commerce to need much explanation. The case of Manchester and Liverpool may again be taken. The immediate effect of the opening of this line was a saving of a quarter of a million a year in transport, viz., at the rates of 2*s.* 6*d.* each to passengers, 2*s.* 6*d.* per ton on merchandise, and 2*s.* per ton on coal. The example was contagious. The value to be ascribed to the saving of time is unfortunately incapable of estimation by any of the ordinary rules of political arithmetic. The recent proposal to make a mono-rail (all modern marvels seem to require a hybrid language for their monstrousness) to convey passengers from Manchester to Liverpool in twenty minutes seems to indicate that the further economy of time has also money in it.

It is in the development of transport and the means of communication that the present century most overtops its predecessors. It cost the mediæval man a silver penny to carry a ton of grain a mile by road. The carriage of some

[1] Macpherson, *Annals of Commerce*, Vol. III., p. 335. Here is part: —

> "The sons of toil with many a weary stroke
> Scoop the hard bosom of the solid rock.
> Compel the genius of th' unwilling flood
> Through the brown horrors of the aged wood.
> Now through the hidden veins of earth they flow
> And visit sulph'rous mines and caves below;
> The ductile streams obey the guiding hand,
> And social plenty circles round the land."

Perhaps the economist of the next century may find our railways as curious as canals, and our Kipling as Mrs. Barbauld.

goods was cheaper — of others dearer — in mediæval times; then, also, as already indicated, there were classifications of rates. But a penny per ton per mile may be considered fairly representative.

At the present time a penny per ton per mile by railway may also be considered a fairly representative estimate when the fractions are pared off and the classifications averaged. The average cost of freight in all the United States is said to be only 0.8 cents, or less than a halfpenny per ton-mile.[1] In England the rates are higher, making an extremely rough estimation of all traffic probably 50 to 75 per cent higher than in the United States.[2] In South Australia[3] the average rate per ton-mile is 1.19*d.*, in New South Wales 1.44*d.* A recent estimate of different European countries gave 1.01*d.* per mile-ton.[4]

Thus making a rough calculation, we may fairly say that the modern penny will carry for a mile by railway the ton of goods which the mediæval penny would carry by road. But without going again into the difficulties of measuring the relative values of money at different periods, it needs no demonstration that the silver penny of the Middle Ages represented a far greater real cost than its modern namesake — a carpenter, for example, at the present day earns as many pennies in an hour as his mediæval predecessor earned in three days ($3\frac{1}{4}d.$ per day being the mediæval rate before the Plague).

It is, however, hardly necessary to observe that the cheapness of railway traffic is only one of its advantages — there is also the economy of time and the higher development of the whole machinery of exchange. The modern penny will not only carry a ton-mile of goods, but will send a letter beyond the limits of the mediæval world; whilst the present high-speed means of communication by tele-

[1] Mayo-Smith, *Statistics in Economics*, p. 267.
[2] Hadley, *Railroad Transportation*, p. 158.
[3] *Statistical Journal*, March, 1900: Howell on "Australian Railways."
[4] Jean, *Railway Problems*, p. 277.

graph and telephone etc. were beyond the limits of the mediæval imagination. In the Eastern world of antiquity, if only time were allowed, marvels of construction and marvels of manufacture might be extorted from masses of servile labour; but no amount of labour-time could be converted into our high velocities. The economy of time and the economy of labour have been the greatest promoters of modern inventions.

§ 13. *Ocean Shipping.—Freights.—Exports and Imports.* The sea has been well called the great free-trader. The competition of English railways[1] with the sea accounts for many of the curious anomalies in freight, *e.g.*, that the same goods can be sent longer distances at cheaper rates. It would, of course, be easy to compare the cost of carriage by rail and by sea between (*e.g.*) Edinburgh and London, of particular kinds of goods; but it is impossible to estimate even roughly an average rate for all ocean freights. Railways have to a great extent displaced canals. In the United States 44 per cent of the canals constructed had been abandoned by 1880. But in general railways and ocean shipping are supplementary rather than antagonistic, and it has been calculated that the world's tonnage of freight waggons or railroads is about the same as the tonnage of all the ships on the sea—namely, about 35,000,000.[2]

In dealing with shipping and prices it may be permitted to adopt the inverse method. During the last fifty years a complete revolution has taken place in shipping. The displacement of sailing vessels by steamers has been continuous. As late as 1850 the sailing tonnage of the world was 91.2 of the total, in 1893 it was 27.9 only. In the year 1900 there were building in the United Kingdom 1,306,751 tons of shipping, in the proportion of 1,297,497 steam to 9254 sail. This substitution of steam for sail has been accompanied, and largely caused, by a

[1] Grierson, *Railway Rates*, p. 30, 1.

[2] Mayo-Smith, *Statistics and Economics*, p. 271.

radical change in material, size, machinery, speed. The resultant effect of all these changes has been that many typical freights are one-third or one-fourth of what they were fifty years ago. The chief factors in this great reduction have been the economy of time and the various "internal economies" of large steam vessels. The rates of insurance have also fallen with security. The influence of insecurity, as in war, upon freights was well shown at the beginning of the nineteenth century, when freights rose about fourfold.

The investigations of Sir Robert Giffen on the excess of the value of imports over that of exports give the materials for a comparison of progress in shipping and freights between 1880–1881 and 1898, and also indicate in the style in which he excels, the larger questions involved. In the earlier paper (1882) he estimated that taking the foreign trade of the whole world, the imports exceed the exports by about £160,000,000. This difference in the gross values of identical things is accounted for by the difference in place; the exports being valued at the place of shipment and the imports at the place of arrival. Thus the £160,000,000 gives roughly the cost of ocean freights. In the later paper (1899) it is stated that the figure had remained about the same. Everything, at the same time, tends to show that there had been during the period an enormous increase in the volume of trade, so that there must have been a corresponding fall in the rate of freights if the total is the same. To take an important example — grain — the fall in freight appears to have been nearly one-half, *e.g.*, from New York to the United Kingdom from 6*s.* to 3*s.* 9*d.* per quarter; from San Francisco from 62*s.* 6*d.* to 25*s.* per ton; from Odessa, from 20*s.* to 11*s.* per quarter.

The progress of shipping in England over long periods may be illustrated by reference to an account of the exports and imports for 1354.[1] The total exports were in value £212,338 5*s.*, on which customs duties of £81,846

[1] Quoted by Macpherson, Vol. I., p. 553.

12*s.* 2*d.* were paid. The imports were £38,383 16*s.* 10*d.* and the import duties £586 6*s.* 8*d.* In 1898 the imports into England and Wales were £423,469,000, and the exports (of home produce) £209,489,000.

We know with approximate certainty, that the present population of England gives a value of exports and imports per head of nearly twenty-two pounds sterling. The population of mediæval England is a matter of dispute.[1] If for the year in question (1354) we take it as 2,000,000 (a low estimate) this would give the value of the total foreign trade as 1*s.* 2*d.* per head. The modern increase is thus nearly four hundred fold in nominal value, and whatever "multiplier" we take to convert mediæval into modern values (Rogers sometimes takes twelve, sometimes eight) we do not increase very much the relative importance of mediæval foreign trade. In the account quoted, indeed, the greatest part of the trade (80 per cent) is wool valued at 4*d.* per pound, whilst the present price of a similar quality would probably not be 8*d.* per pound. A particular instance is in some respects more striking than a gross total. In 1297 munitions were sent from Bristol to Carnarvon Castle. The ship with its complement of sailors is hired at less than 2*s.* a day, which shows not so much that freights were low as that ships were small.

§ 14. *General Conclusion.* In the preceding books it has been shown that exchange is logically part of production. In a survey of economic progress this interconnection of commerce and production in the narrow meanings of the term is perhaps the most striking characteristic. The commerce of the towns improves the country, and the commerce of the world improves the towns — there we have condensed the larger part of economic history. But all commerce depends on relative prices; if relative prices differ in any two countries, a trade will naturally arise, unless it is prevented by cost of carriage, the imposition of duties, or other hindrances. In the

[1] *Cf.* Cunningham, Vol. II., p. 331.

course of progress, however, these hindrances on the whole tend to diminish, and thus smaller differences in relative prices are sufficient to create a trade.

But conversely, also, the disappearance of differences in relative prices must cause a trade to cease. For the United Kingdom this is a fact of vital importance. The world's market governs the particular markets of particular countries. Changes of greater magnitude now occur with greater frequency than ever before. A nation, to retain its lead in industrial supremacy, must always be the first in adaptation and the quickest in mobility.

CHAPTER V.

RENT AND PROGRESS.

§ 1. *Rent as a Measure of Progress.* It was generally maintained by the English economists of the seventeenth century, *e.g.*, Petty, that rent was the best criterion of prosperity, and a rise in rent the surest sign of growing wealth; and this opinion was still strongly held in the eighteenth century. It seemed only too natural to infer that whatever raised rents increased the national prosperity, and that whatever lowered rents was a national evil. Rents came to be regarded as the principal source of the demand for commodities; if rents rose, the landlords bought more of the shopkeepers, these again of the wholesale dealers, and these of the manufacturers; if rents fell, "the landlord must disappoint the tradesmen he deals with, the tradesmen their wholesale dealers and merchants, by which means the mischief circulates, and by an unhappy chain of consequences one deficiency extends itself to an inconceivable length and produces many."[1]

The author of the *Memoirs of Wool* (1747) pricked many economic bubbles, and was often approved of by Adam Smith, but he takes it for granted that a fall in rent is a national calamity. "As the landed is the most considerable national interest, so that of pasture ground is the most valuable of the landed, and wool the principal article for the support of both."[2] It is true that he distinguishes between a low price due to abundance and a low price due to prohibition of export; in the former case he seems to think (contrary, however, to all the experiences of English

[1] *The Lincolnshire Grazier*, quoted in Smith's *Memoirs of Wool*, Vol. II., p. 523.

[2] *Ibid.*, p. 555.

agriculture before free trade) that the cheapness will be neutralised by the abundance; but in the latter he finds no compensation — the landlords suffer, and the mischief circulates.

The bounty on the export of corn and the prohibition or discouragement of import by duties were primarily intended to benefit the landed interest and raise rents, although attempts were made to show that indirectly on the average the consumer would also benefit. Protection to the landed interest remained the corner-stone of English commercial policy up to the repeal of the Corn Laws.

From that time onward, however, largely owing to the influence of J. S. Mill, the increase of rent has been regarded popularly as an evil, although the necessary or natural concomitant of industrial progress — an opinion which was pushed to its logical extreme in Henry George's *Progress and Poverty*. In this work we have the exact opposite of the old seventeenth-century doctrines. The land-owners absorb by their rents the wealth which ought to relieve the labouring poor; rent instead of being the source of national prosperity is the cause of national poverty; the landlords gain, and the mischief circulates.

The truth is — as shown in the theoretical analysis of the preceding books — that the term "rent" covers several totally distinct economic conceptions, and a rise of rent may or may not be a sign of progress and of national prosperity according to the variations in its nature and causes. No economist has appreciated this truth better than Adam Smith. Although, as usual, his language is lacking in the precision of modern theory, it may be doubted if any important species of rent has escaped his attention.

I propose, as in the last chapter, in the first place, to apply the historical method, taking advantage, however, of modern analysis to provide guiding hypotheses.

It is a matter for regret that Rogers has collected no materials for urban rents, and gives very scanty references to actual agricultural rents or sales of land. On the other

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hand, the corresponding work of Vicomte D'Avenel for France is particularly rich, and I begin with a remarkable instance taken from the history of the urban land of Paris, which will serve to illustrate the theory and lighten the exposition.[1]

§ 2. *Progress and Urban Ground-rents.* In 1234 an English shoemaker living in Paris bought a piece of land at the corner of the *faubourg* Montmartre and of the street Bergère. The land was about six English acres in extent, and was used for growing vegetables for the Paris market. The annual rent was 245 francs and the capital value 3000 francs. In 1261 this artisan and his wife gave the land to the Hôtel-Dieu in exchange for certain prayers after their death and for the right of being supported during their lives as "brothers and sisters of the hospice." The hospice itself at first could not greatly congratulate itself on the bargain, for the rent fell until in about two centuries it had reached one-eighth of its former value, the six acres being let in 1426 for 32 francs in place of 245. In the course of another century, 1513, the rent rose to 78 francs, and by 1637 the figures had attained 1472 francs. In 1702 and 1763 the hospice, unmindful of the chances of unearned increments, sold the land in two portions at a loss in capital value of 20 per cent compared with 1637—say 60,000 francs as against 75,000. The present (1894) capital value of the land is stated by Vicomte D'Avenel as 27,000,000 of francs—a rise of over 400 times in value having taken place in the last 125 years.[2]

This example has the advantage of showing that a rise in the rental of land, even in or near a large city, is by no means continuous or inevitable, though it also shows

[1] Vicomte D'Avenel, *Histoire Economique*, Vol. I., Bk. II., Ch. IX., p. 420.

[2] As I write, an illustration is afforded by the enquiry into the St. Mary le Strand charities. A gift of land left in the year 1667 by Alice Loveday, value £7 per annum, now produces £2257.

that under certain conditions the rise may be enormous in a comparatively short time.

The principles applicable to the case are derived from the general theory of value. To begin with, the value of suburban land depends on agricultural conditions, or rather on primitive market gardening. The subsequent increase in building value is explained by the limitation of supply, the rise in demand, and the failure of substitutes or alternatives.

As regards the future, it is certain that the supply of land in the heart of great cities cannot be increased in the literal sense of the words; and it is probable that even the greatest cities may still increase in wealth; and thus so far the demand may rise. It is doubtful, however, if the recent rate of increase in ground values in old cities will be maintained. The "sky-scraper" shows that the same extent of land may support much more accommodation, and with modern mechanism the marginal story is not necessarily the worst. The improvements in transport and communication extend the area available for the most highly organised business. In brief, the principle of substitution is beginning to undermine the scarcity value of ground-rents. As regards dwelling-houses, there is observable in recent years, even amongst the working-classes, a more just estimate of elementary utilities, and comfortable and healthy accommodation is coming to be considered a fair compensation for increasing distance. It seems probable that these improvements in methods of expenditure and in the means of communication will continue, and that the fall in ground-rents will be accompanied also by a reduction of overcrowding.

Two points of theoretical interest can only be alluded to. First, it is possible that with a fall in particular ground-rents there may be a rise in the aggregate rental of building land, the extension of area more than compensating the fall in value. Secondly, the increase of competition will neutralise the monopoly element that is

often found in ground-rents. Adam Smith partly explained the dearness of London ground-rent by saying that every landlord acted the part of a monopolist, frequently exacting a higher rent for a single acre of bad land in a town than can be had for a hundred of the best in the country. Though the language is not to be commended, the meaning ought not to be overlooked. There is no doubt that in many cases, even at present, the owner of the land has at any rate a partial monopoly; at least, he has the advantages of the stronger in making a bargain. The occupier who wishes to renew his lease is generally willing to give something more than the market value by way of *pretium affectionis*, or good-will.

But under modern conditions, at any rate, the greater part of the value of ground-rent in cities must be ascribed not to monopoly, but to scarcity. The influence of monopoly in the strict sense is best seen in the case of agricultural rents before the era of competition. The ancient owner of land was enabled to exact a monopoly rent from his tenants because they were bound to the soil alike by law, custom, and economic conditions. One of the greatest achievements of economic progress is the displacement of monopoly rents of this kind by competition rents.

§ 3. *Progress and Agricultural Rents.* In the exposition[1] of the pure theory of economic rent as applied to agricultural land, the law of diminishing returns is made fundamental. The marginal land and the marginal dose of capital yield no rent, and any superior lands yield a surplus in proportion to their superiority. In the pure theory, however, it is also shown[2] that even if all land were equally good and favourably situated, and the returns to every dose of capital equal, or, in other words, even if the law of diminishing return to land were not applied, pure economic rent might emerge. A rent of this kind must be distinguished from a monopoly rent, for it might

[1] See above, Bk. II., Ch. XIV.
[2] Bk. III., Ch. IX.

arise under perfect competition, being indeed a case of scarcity value.

Finally, however, even if there is no scarcity, an economic rent, may be exacted (in the sense of a payment for the use of the natural qualities) if the various land-owners possess a complete or partial *monopoly* as regards their particular tenants.

When we trace the historical progress of agricultural rent, we find that this after-thought of the pure theory is the first thought of the primitive fact. Land under the rudest systems of agriculture generally produces more than is sufficient to maintain the labour necessary to work it, and to replace the auxiliary capital. Thus there is a natural surplus, and by appropriation this surplus is taken by the land-owners in the form of rent. Natural rents of this kind, in which the real surplus is taken from labour directly, persisted for centuries, and were only gradually and slowly commuted into money-rents, and this commutation, as already indicated, is itself one of the great factors of economic progress.

The history of the origin, development, and decay of the manorial system in England still affords a most fruitful field for conjecture and controversy; but as regards the main lines of the progress of rent there can now be little room for difference of opinion. The Saxon land charters find their analogues in every country in which feudalism has prevailed — and where has it not? And those early records show that with the dawn of history there is always an overlord to appropriate the natural surplus. It may not be called rent, and it is not paid in money, but it is the most burdensome of all payments made for the use of the natural qualities of the soil.

When the greater part of the cultivated land of England was split up into the yardlands or virgates of which Mr. Seebohm has engraved so indelible a picture, the greater part of the people were compelled not only to till their lord's land with their own ploughs and oxen, and to furnish

him with all the labour that he needed (even for his caprice), but they had to give up a considerable part of the produce of the land which they were supposed to cultivate for themselves. The further we go back the greater is the amount of labour exacted, and the greater the proportion of the produce. Up to the time of the Black Death — the watershed of English mediæval history — economic progress consisted largely in the curtailment of this natural rent. On the royal manor of King Alfred the tenants (if tenants they can be called) were to work as they are bid each week except three in the year, viz., one in mid winter, the second at Easter, and the third at "gang-days." In the time of Edward I., on a typical manor, the week-work had come to be limited to two and a half or three days. Measured in time only, the villein had become half free; measured in his release from *merchet* and other bonds, he was much more than half free. "Of all manorial exactions the most odious was incontestably the *merchetum*, a fine paid by the villein for marrying his own daughter. Our authorities often allude to this payment by the energetic expression, — buying one's own blood (servus de sanguine suo emendo)."[1] When the week-work had been wholly commuted into a money-rent, the villein had become a tenant farmer, and was on the way to become a yeoman. Thus the history of the commutation of natural into money rents is also the history of the freedom of labour.

It must not be supposed that rents of this primitive kind died of the Black Death. The essence of such rents is that the ownership of land enables the owner to reap where he has not sowed — in some cases to reap the harvest of the sea itself. Thus of Shetland we read that the rent of the landlord was in proportion not to what the farmer could make of the land, but to what he could make both of the land and of the water; it was partly paid in sea-fish. No wonder that Adam Smith, who above all was historical,

[1] Vinogradoff's *Villainage in England*, p. 153.

concludes with the commentary: "The rent of land therefore, considered as the price paid for the use of land, is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out on the improvement of the land, or to what he can afford to take, but to what the farmer can afford to give."[1]

The use of the term "monopoly" with such generality may not be exact, but it is suggestive of more of the true than the false. And such a usage seems strictly exact when the owners of the land could prevent their serfs and their children from leaving the bounds of the manor, and when neither law nor custom imposed limits on the price exacted from them in labour and in kind.

With the institution of money-rents, and with the growth of freedom of movement for labour, the monopoly element —or it might be called the private taxation element— becomes less and less. The rent paid for the occupancy of a portion of land falls to the surplus earned by the particular portion of land; in place of a monopoly rent it becomes a true competition rent. Just as a monopoly rent is of all sorts the most burdensome, a pure economic rent is the least burdensome. With effective competition, labour and capital must obtain the average earnings available in the economic conditions of the time before anything is paid for rent: rent is only a deferred dividend; wages and profits are preferred.

It sometimes happens, it is true, that excessive competition for land in effect gives the land-owners as much as they could exact on the primitive monopoly system. This is the case of land hunger. The earnings of labour and the upkeep of capital are reduced by excessive competition to a necessary minimum. The standing example before the great reforms of the later Victorian era was Ireland, and the full measure of the abuses of the old Irish system has

[1] *Wealth of Nations*, Bk. I., Ch. XI. Similar rents continued in some parts of Scotland down to our own times, until reduced by the Crofters' Commission.

been heaped up, and in this case the heaped measure is just, by Arthur Young, who is in general the greatest enthusiast for economic rents and competition. The close resemblance between excessive competition and monopoly is brought out in the following passage: "The state of the poor in the whole county of Kerry is exceedingly miserable, and is owing to the conduct of men of property who are apt to lay the blame on what they call land pirates or men who offer the highest rent and who in order to pay their rent must and do relet all the cabin lands at an extravagant rise, which is assigning over all the cabins to be devoured by one farmer. The cottars on a farm cannot go from one to another in order to find a good master as in England; for all the country is in the same system, and no redress to be found. Such being the case, the farmers are enabled to charge the price of labour as low as they please, and to rate the land as high as they please."[1]

The effect is the same (though disguised by money payments) as in the primitive manorial system when the lord exacted the utmost amount of labour and produce from villeins who were bound to the soil; the Irish system was indeed probably far worse if a general average be taken. It is beyond the range of the present chapter to describe how the cancer of cottier rents was naturally associated with other social, political, and economic evils; but if any one is still inclined to complain of the slow response of Irish gratitude for recent economic reforms, let him read the pages of Arthur Young and remember that it takes time for a nation to forget.

The progress of agriculture in England was fortunately never retarded by anything approaching in intensity to the evils of the Irish system: there are indeed periods in which English land-owners were denounced by their contemporaries; but they have been condemned to a less extent by posterity — not that their conduct has won our moral approval, but because it has seemed to form part of the

[1] *Tour in Ireland* (1776), Vol., II. p. 369.

necessary disturbances of the old social order incidental to economic progress.

In the break-up of the mediæval economy, there are two significant changes on the surface: the substitution, namely, of broad acres lying together for long acres in scattered strips and of enclosures for the great open fields. These superficial changes corresponded to deeper social movements of which the mainspring was a rise in money-rents. There were two periods of rapid change,[1] "of change so precipitate that it may almost be called revolution," namely, from 1470 to 1530 and again from 1760 to 1830. The immediate object of the later enclosures, says Professor Ashley, was altogether different from that of the earlier. In the eighteenth century the object was to introduce a better system of arable cultivation; in the sixteenth, it was to substitute for arable the more profitable pasture. In both cases, however, as in the corresponding case of the later evictions in Scotland to make sheep farms, if the initiative was taken by agricultural improvers, the necessary assent of the landlords was obtained by the enhancement of rents. The earlier revolution was associated with the development of the English woollen manufactures, and therewith of the towns and of foreign trade; the later provided food for a rapid increase of population, which again was essential to the still greater development on the same lines.

There can be no doubt that the break-up of the old agricultural system was a necessary preliminary to English economic progress; and the break-up of the system was only possible through the accentuation of private property in land. The enclosures for the extension of sheep farms in the sixteenth century were effected against great popular outcry, and it was felt then and has been acknowledged since that the letter of the law was allowed to overrule the spirit of immemorial custom as regards the

[1] Ashley, *Economic History*, Bk. II., Ch. IV., p. 286.

occupiers, and that the actual occupiers of the land were sacrificed to the nominal owners.

It must be remembered, however, that the legislature attempted by various measures to provide compensation, to prevent the depopulation of the villages, and to encourage tillage. The heavy duties on the export of wool, which later on grew into prohibitive penalties, were always regarded as inimical to the interest of the landlords, since the price of wool in the home market was lowered and with wool rent. It may be observed for comparison that in Scotland, until the advent of the recent depression, on most sheep farms the wool was supposed to pay the rent. If the State, on the disintegration of the mediæval system, unduly favoured the land-owners, it was not by the method of legal enactment, but by the still more powerful methods of legal interpretation and enforcement.

In the eighteenth century it is acknowledged even by Thorold Rogers that the great land-owners were also great improvers, and the rise in rents was in great part due to the improvement of agriculture, and this improvement was only possible with enclosed land. The small farmers who still used the old customary methods often paid their rents, not from the real product of their land, but from the by-product of their labour. The mother and children spun the wool, the father wove it into cloth, and the landlord arrayed himself in the cloth, or its value. When domestic spinning was displaced by machinery, the small farmer could no longer pay his rent, or indeed support his family.

Thus it happened that whilst the new farmers were paying greatly increased rents and making fortunes, the old farmers were being ruined. The substitution of true economic rents — in the sense of a surplus arising from the land itself — for this survival of labour rents was in reality a step nearer the attainment of the economic ideal of distribution. On the other hand, however, the protectionist policy of the Corn Laws was one of the most glar-

ing instances in English history of the infringement of this economic principle, so glaring that it became impossible.

§ 4. *General View of the Development of Agricultural Rent.* Contrary to the popular idea, the actual history of agricultural rents in England may be shown to conform to the great movements of economic progress. The earliest forms of rents are rents in kind — in labour and produce.

The farther we go back the greater are the rents. The work of Fleta in the reign of Edward I. is described as the landlord's *vade mecum.* In the survey of the manor it is directed that enquiry be made, *inter alia*, *de custumariis* or villein tenants, — "to what amount they can be tallaged without reducing them to poverty and ruin; what is the value of their *operationes* and *consuetudines* their day works and customary duties, — and what *rent* they pay; and which of them can be tallaged *ratione sanguinis nativi* and who not."

"What rent they pay" is obviously the smallest part of the total real rent since the land-owner, apart from customary day works, can tallage them down to the minimum of subsistence.

The first great result of economic progress as regards rents of this kind is their diminution, the history of which has been so vividly portrayed by Mr. Seebohm.

The second great result is the commutation of rents in kind into money-rents.[1] This commutation, however, was

[1] In the fourteenth and fifteenth centuries, says Rogers, the rental of average arable land did not exceed 6*d.* an acre.

If we take the normal virgate as 30 acres, and the normal labour rent before the commutation at 3 days a week, we may say that the average rent of an acre of land was about 5 days' labour a year. This is allowing nothing for other precarious services or for payments in kind, but also nothing for holidays.

Now, in his earliest prices, 1260–1350, Rogers (*op. cit.*, Vol. I., p. 321) finds that the lowest paid labour, that of the help in the fields (the "homo," who was generally a woman), is one penny a day on the average. From 1351 to 1410 the price of this labour is $2\frac{1}{4}d.$ The corre-

not so complete as might appear at first sight. The ownership of land still carried with it large powers over those who were not owners. The legislation of Elizabeth was obviously intended to check the migration of labour from the country to the towns, *e.g.*, "all single persons between 12 years old and 60 and married ones under 30 and unmarried women between 12 and 40 not having a visible livelihood are compellable by the justices to go out to service in the husbandry."[1]

The relation of the land-owner to the tenant farmer after the commutation was still that of the predominant partner, and during the seventeenth century complaints are numerous of the injury to agriculture through the want of security to the tenant.[2] Rogers indeed goes so far as to say that during the seventeenth century something very like the Irish system prevailed in England in which rent is all the value of the product beyond the bare subsistence of the owner, and is often paid, indeed, not out of the product of the land at all, but out of the by-products of labour.

In the eighteenth century the most noticeable feature is the progress of true competition rents. Those who farm land with the new improvements can pay higher rents out of the surplus product than the customary cultivators can pay out of their whole earnings. In the period of the industrial revolution the land-owners were enabled to

sponding rates for thatcher and man are in the first period 3½*d.*, in the second 6¼*d.* Thus, on any computation, the villein gained greatly by the commutation.

It is noteworthy that Walter de Henley, in his celebrated estimate of the cost of production of wheat, in which he shows that six bushels per acre is the marginal or no-profit return, makes no allowance for the rent of land.

[1] Eden's *State of the Poor*, Vol. I., p. 125.

[2] *Cf.* Cunningham, Vol. II., pp. 184–185; Rogers, Vol. V., pp. 802–803. Macaulay (*History of England*, Ch. III.), describing the state of England in 1685, says that in some districts the rent of land had risen tenfold, and on the average had quadrupled in the course of the century, whilst agricultural wages were 4*s.* a week (without food).

raise their rents partly through protection, and more through a series of bad seasons[1]; and the power of bargaining was still in their favour.

The last quarter of the nineteenth century has witnessed the full effects of competition (in the widest sense) on agricultural rentals.

The land-owner has been deprived, by various reforms of the laws affecting landlord and tenant, of his remnant of legal superiority in making bargains and of his economic superiority through free trade and the immense improvements in transport. In the main the agricultural rental of England is now paid out of surplus profits earned by the particular portions of land concerned. There are in different parts of the country still some survivals of the old powers and privileges, but they are only the shadows of the former substance.

The development of transport and foreign trade — so far as agriculture is concerned — has in effect made land free. The elements of monopoly and private taxation have been destroyed, rent is paid only for superior advantages, and such a payment inflicts no real burden on the payer. It is well known that under purely economic influences the agricultural rentals of England have fallen through natural causes at least as much as the rents of Ireland by judicial intervention.[2]

In some cases, indeed, to adopt the fashionable terminology, the economic rent has become "negative"; the owner of the land, in order to obtain part of the "quasi-rent" for his buildings, drains, etc., has been obliged to surrender more than the rent formerly paid for the original and indestructible powers of the soil. In brief, a great part of the cultivated land of England does not yield under present conditions the minimum rate of interest on the capital sunk in it.

[1] See below, § 8.

[2] The Duke of Devonshire stated recently that his rents in Somerset had fallen 33 per cent, as against 17 per cent in Ireland.

§ 5. *The Effects of Agricultural Improvements on Rents —General Conditions.* At this point an examination may be made of the effects of agricultural improvements on rents. Owing to the difficulty of isolating economic rent, and also to the opposing tendencies on which the result depends, to begin with it is best to adopt the deductive method as the basis of the exposition.

In applying this method, the usual assumptions and hypotheses must be made in order to bring out clearly the most important influences.

The country, then, in the first place, is assumed to be isolated or dependent on its own food supplies. Even this assumption is not so unreal as may appear under modern conditions, for the general argument will apply to the whole world considered as one great agricultural producer and consumer.[1]

Secondly, it must be observed that the object is to trace the effect of general improvements upon the aggregate rental. It is plain that if improvements are only adopted partially, (say) for simplicity on one estate, they will have no appreciable effect on the aggregate national product or its prices. The particular owner or tenant, according to the conditions of the lease, will alone benefit. In the case already cited, the improvements toward the end of the eighteenth century enabled the new farmers to pay far higher rents, and the old farmers were gradually displaced.

Thirdly, it must be assumed that population remains stationary, and accordingly that there is no immediate increase in the demand for food or other rent-yielding products.

This is only another way of saying that, in the first place, the immediate effects will be considered, other things remaining the same. And it is obvious that, if improvements are sudden and general, the increase of

[1] It is well known that in all the great nations the drink consumed is for the most part home-made (*i.e.*, not imported), and, to a large extent, the observation holds good of food supplies.

population cannot be equally sudden and widespread, and also that any readjustment in the demand for agricultural products must take some time.[1]

Agricultural improvements may be divided into three groups: (1) Improvements in transport and the means of communication which Adam Smith calls the greatest of all improvements.

(2) Improvements of such a kind that the same amount of produce can be raised from less land, *e.g.*, improved rotation of crops.

(3) Improvements such that the same land is required to raise the same aggregate supply, but the expenses are less, or the most expensive application of capital may be dispensed with, *e.g.*, the substitution of machinery for labour.

§ 6. *Effects of Improvements on Rents — Special Conditions.* The principal effect of improvements in transport is the substitution of land of superior, for land of inferior, quality in productive power. The improvements so far counteract inferiority of situation. The consequence is a recession of the margin of cultivation. Rents measured in produce fall; rents measured in money fall still more, because the marginal cost of production is less.

For purposes of theory it may be assumed that, before the improvements, there are lands beyond the margin through inferiority of situation relatively to markets, but well within the margin in natural productive power.

Similarly also, before the improvements as regards the application of capital, there are lands which are only cultivated to a small degree of intensity, owing to the cost of the transport of materials and of produce.

Thus, putting together the effects of improved transport and of diminished marginal cost, there will in general be a double effect — intensive and extensive.

This result, it is readily seen, is equivalent to combined improvements of the two remaining classes, viz., less land

[1] The effects of an ultimate increase of population and of demand will be considered later.

is required to produce the same produce, and the most expensive applications of capital on this amount of land are abandoned.

The full effect of improvements in transport and accessibility to markets is, however, best observed when we consider the transition of an old country from a state of independence or isolation as regards its food supplies to a state of dependence on new countries. A striking example is furnished by the recent fall in the agricultural rental of England.

This fall, however, would have been much greater had it not been that a large part of the land could still be used for the production of supplies which were not so much affected by the improved transport as "corn" — the typical product of theory.

Improvements — such as a better rotation of crops — which involve the use of less land with the same amount of capital and labour cause the margin to recede, and in general there is a double fall in rent; rents reckoned in produce are less, and each unit of produce obtains a less price.

If the improvements are such that the same land is required but the most expensive application of capital can be dispensed with, produce-rents in general remain the same, but money-rents fall because the marginal cost is less.

These results are derived from the pure theory of rent under the conditions that are usually assumed tacitly or explicitly. It is, however, well worth observing that the complete working out of the problem, even when thus simplified, can only be effected by the aid of mathematical analysis. Professor Marshall many years ago called attention to a curious error on the part of Mill,[1] who had unconsciously argued to a general conclusion from the accidents of particular figures.[2]

[1] Bk. IV., Ch. III., § 4.

[2] Professor Marshall takes 115, 65, and 60 in place of 100, 80, 60 by Mill. It may be proved generally that the new produce-rent is greater than the

One general consideration on the effects of improvements in rents shows that the money-rents are likely to fall. Suppose that owing to improvements less capital is required on each portion of land to obtain the same produce, and suppose that the rate of profits remains the same. Since economic rent is the sum of the differential profits, if in each case there is less capital, in each case also there is less profits, and the sum of the differences is less.

§ 7. *Ulterior Effects of Improvements.* That rents should fall as the result of improvements has always seemed as paradoxical as the other Ricardian deduction; namely, that the abolition of rent would have no effect on the price of the produce. The exceptions to the latter position have already been examined.[1] The paradox of the present deduction disappears if the preliminary assumptions are borne in mind.

Ricardo himself states: "I hope I am not understood as undervaluing the importance of all sorts of improvements in agriculture to landlords; their immediate effect is to lower rents; but as they give a great stimulus to population, and at the same time enable us to cultivate poorer lands, they are ultimately of immense value to landlords. A period, however, must elapse during which they are positively injurious to him."[2]

One criticism in the opposite direction may be offered. In the first place, the increase of population is by no means necessary as already explained in the chapter on the Malthusian theory.[3]

Secondly, there may be a compensating effect apart from the increase of population. Owing to the general increase of wealth, there may be an increased demand for

old if $(a_3 - a_2) > 2n\ (a_2 - a_1)$ where a_1 is the yield to the land, on the margin, a_2 and a_3 the yield to the better land, $\frac{1}{n}$ the rate of improvement, and the aggregate yield remains the same. By substitution it may easily be shown that in any case money-rents fall.

[1] Bk. III., Ch. IX.

[2] McCulloch's edition, p. 43, note.

[3] Bk. I., Ch. XI.

various forms of agricultural products which are not so susceptible of improvement as wheat. Even in the mediæval period, when the average rental of arable land was, according to Rogers, only 6*d.* an acre, the rental of ordinary meadow land amounted to 6*s.* and 7*s.* per acre.[1]

In the preceding chapter it has been shown that, relatively to other forms of agricultural produce, the price of wheat has fallen greatly.

On the whole, however, the effect of all kinds of improvements (including transport) has been to lower agricultural rents in the countries that were formerly self-supporting, and it must always be remembered that a large part of gross agricultural rental is not pure economic rent, but of the nature of interest on permanent improvements.

§ 8. *The Effects of the Seasons on Rents.* The results of the inquiry into the effects of improvements upon rents may be confirmed by reference to a similar case in which there is less need of hypothesis — the effects, namely, of the seasons.

A long period of comparatively good seasons, after a period of relatively bad or moderate seasons, is precisely equivalent to a general diminution of the cost of production.[2] The popular idea that the seasons balance one another in a very short series of years, or, at any rate, in nineteen years (a complete cycle of the moon), was shown to be fallacious by Tooke, who suggests that a series of one hundred years, at least, is requisite to reduce to a fair average the inequalities of the seasons.[3]

The period of 1715–1765 was characterised by a marked exemption from seasons of scarcity compared with the fifty years preceding. As a consequence, provisions

[1] Rogers, *op. cit.*, Vol. I., p. 249; Vol. IV., p. 299.

[2] *Cf.* Tooke's *History of Prices*, Vol. I., p. 59.

[3] *Ibid.*, p. 84, note. In India, in A.D. 1582, the period of nineteen years was selected, in Todar Mal's *Settlement under Akbar*, as the basis of average prices; because nineteen years being a cycle of the moon, the seasons were supposed in this time to undergo a complete revolution. — C. O. Field, *Landholding and the Relation of Landlord and Tenant* (1883).

were cheap and abundant, and the general condition of the people was greatly improved.[1]

But we read also that the great fall in prices, which contributed so greatly to national prosperity, was productive of great "agricultural distress," *i.e.* distress to the landed interest. This distress is indicated by the fall in rents, and the pamphlets of the time try to show that the fall is necessarily a national calamity, "since the flourishing condition of the landed interest supports all trade."[2]

The last thirty-five years of the eighteenth century were marked by unfavourable seasons, with a consequent rise in the price of produce, the result being to raise the average price of the entire century to a level with that of the preceding century, the price of wheat being £1 18*s.* 2*d.* in the seventeenth century compared with £1 18*s.* 7*d.* in the eighteenth (per Winchester quarter).[3]

The period of 1792–1819 was a period of famine prices, and the investigation of Tooke has shown that the principal cause was the seasons. The deficiency was aggravated by the war, — but this was a minor cause, — and the Corn Laws were inoperative, or nearly so.

In many parts of England the rent of arable land per acre rose fivefold between 1790 and 1812, and throughout Great Britain rents were more than doubled.[4]

So long as England was mainly dependent on its own supplies, the principal cause of fluctuations in prices was the course of the seasons. With a series of bad seasons prices rose more than in proportion, and with prices, rents; with good seasons there was a more than proportionate fall in prices and rents.

[1] Tooke's *History of Prices*, Vol. I., p. 60. Hallam describes the reign of George II. as the most prosperous period that England had ever experienced.

[2] See quotations in Tooke, Vol. I., p. 41, 2.

[3] The average from 1701 to 1766 was £1 12*s.* 1*d.*; the average from 1767 to 1800 was £2 10*s.* 6*d.*

[4] Porter's *Progress of the Nation* (new edition, 1847), p. 151.

The natural course of prices was not much affected by foreign trade; not so much on account of corn laws and inferior means of communication — for there had been a certain amount of trade in corn from time immemorial — but because the corn countries of Europe were subject to the same climatic influences.

CHAPTER VI.

PROGRESS AND PROFITS.

§ 1. *Progress and Profits — General View.* Mill arrives at the following result of his long investigation of the effects of progress on rents, profits, and wages: "The economical progress of a society constituted of landlords, capitalists, and labourers tends to the progressive enrichment of the landlord class, while the cost of the labourers' subsistence tends on the whole to increase and profits to fall." Agricultural improvements are stated to be a counteracting force to the two last effects, but the increase of population tends to transfer all the benefits from agricultural improvement to the landlords alone.

How false (or hypothetical) is this view of the effects of progress on agricultural rents has been shown in the last chapter. As regards other forms of economic rents, the effects of progress are different in different cases, and it is probably impossible to form any general proposition as regards a tendency to rise or fall which would cover all these cases. Even the phrase the "enrichment of the landlord class" is open to question. If we take a similar large view of the profits of capital, the enrichment of the capitalist class seems in modern industrial societies to exceed many times that of the landlords.

But as already shown in the preceding books, the term "profits"[1] includes classes of income that differ widely in character: it includes interest on loanable capital and interest on capital not loanable with a great variety of sub-species; it includes what is called compensation for

[1] *Cf.* Bk. II., Ch. XIII., and Bk. III., Ch. XXII.

risk, which may mean anything between a sufficient inducement to gamble and a private mercantile insurance; and it includes earnings of the management of capital, by the owner and by the borrower, — in large and in small businesses, and in businesses of endless variety.

It follows that if it is difficult to summarise the effects of progress on rent, it is impossible to summarise the effects on profits. The tendency of profits to a minimum, which was perhaps the only really comfortable doctrine of Mill's political economy, can only be retained as the title of a chapter of economic analysis. Whether the general rate of profits tends to rise or fall with industrial progress is so complex a question that an appeal to history even over long periods is not decisive, or rather a case for appeal cannot be stated — there is not one case but many cases.

It was well observed by Adam Smith that from the very nature of the profits of stock it is much more difficult even than with wages to obtain an average for the whole of a great country at any time, and to judge of what the rate of profit may have been in former times with any degree of precision must be altogether impossible. With the development of industry since the time of Adam Smith these difficulties have increased.

There is, however, one important element of profits, namely, the rate of interest to which the historical method may be applied with some hope of success. "And the progress of interest may lead us to form some notion of the progress of profit." (Adam Smith.)

§ 2. *Progress and Loan-interest.*[1] An ancient legal conception, it has been said, corresponds not to one but to several modern conceptions, and the proposition remains true when economic is substituted for legal. Industrial like all other development has involved processes of specialisation and differentiation, and if we attempt to read economic history simply by the light of fully devel-

[1] On the relation of loan interest to profit interest, see above, Bk. II., Ch. XIII.

oped modern conceptions, we are likely to lose the way in a mist of irrelevancy or to confine the attention to a few barren facts almost without meaning in isolation. If, on the other hand, we realise the full meaning of the ancient ideas and practices, light is thrown on survivals and reversions, and in turn the historical method is supplemented by the comparative. The history of usury, the ancient conception which included not only the modern usury and the modern interest but various other ideas, is a good example of the truth of these general reflections.

In modern economic theory we are accustomed to separate pure interest from interest combined with other elements (*e.g.*, insurance of various kinds). We assume that, given perfect security and negotiability, the rate of pure interest is uniform throughout the country considered as throughout the whole range of investments. We assume even that all capital, whether lent or not, earns this pure interest. We say nothing of the nature of the security or the method of realisation, whether of interest or principal. This conception of pure interest corresponds in the modern world to an important economic fact. This fact, however, is the result of a long process of evolution. The farther we go back toward rudimentary conditions, the less it becomes possible to obtain examples of pure interest of this kind, either in fact or in economic opinion. Instead of simply assuming that the security afforded is perfect, we have to take account of the development of the law of debt. Instead of competition, the conditions are in general those of monopoly, whether we regard the needs of the borrower or the powers of the lender. At the same time we can trace in very early times (or rather under primitive conditions — for time is not the test) the germs of competition and of borrowing for productive purposes. Probably one of the greatest gains of the nature of consumers' rents — to adopt the fashionable phrase — is the gain indicated by the fact that borrowers under modern conditions pay

not in proportion to their needs, but at the market rate. The exception shown by recent abuses only proves the rule.

In tracing the development of interest, the history of ancient Greece and Rome is too valuable to be overlooked.

§ 3. *Loan-interest in Ancient Athens.* In ancient Greece, generally, agriculture was the only industry worthy of free men, and even Aristotle [1] considered rude mechanicals as incapable of virtue, though in Athens there was much free labour. The Greek citizen worked hard to attain physical and mental culture, but as far as possible all other hard work he left to slaves. He worked for hire only if he had no slaves. The chief original sources of slavery were war and debt. The failure to repay a debt in due time involved the slavery of the debtor and that of his children's children.

Debts were incurred to meet the extreme necessities of famine, pestilence, or war. Debt and famine run together in the mind of the poet Hesiod. As the debtors, once enslaved, seldom regained their freedom, and as necessity (like death) in time struck at every door, society was divided into a very small class of rich creditors and a large mass of poor debtors and slaves. In Attica the bulk of the population (the thêtes) were originally small proprietors or metayers.[2] Before the time of Solon's legislation (594 B.C.) they had become weighed down by debts, many were enslaved, and some had been exported. Those who still kept their property were in the position of Irish cottiers — they owed more than they could pay, and the stone pillars erected on their lands and graven with their mortgages were like millstones about their necks. All the political and economic power of the state had fallen into the hands of the few. At length the masses revolted and Solon was appointed Archon. The legislation of Solon is worthy of mention with the greatest efforts of

[1] *Politics*, Bk. III., Ch. II. "For it is impossible for one who lives the life of a mechanic to practice a life of virtue."

[2] *Cf.* Grote's *History of Greece*, Vol. III., pp. 125–299.

the Greek mind. Without it, indeed, the glory of Athens would not have shone. Solon swept away the mortgage pillars, released the debtors already enslaved, and brought back as many as possible from overseas. But the great merit of Solon's work was in the prevention of similar evils in the future. This was effectively done by forbidding all loans and contracts in which the person of the debtor was pledged as security. The remedy was simple but effective, and Athens was never again disturbed by a general revolt of debtors. "The poor do not get into debt," wrote Plutarch,[1] "because no one will lend to them," and besides this the poor instead of becoming slaves became hired labourers.

It may be thought that the bearing of this history on the general argument is remote. It can easily be brought near. The rapid growth of the old debts (and slavery) had been mainly due to usury, and yet Solon left the rate of interest to be determined *solely* by *contract;*[2] the borrower might agree to any terms short of pledging his own freedom and that of his children. Most ancient legislators (*e.g.*, the Romans)[3] made vain attempts to fix the rate of interest at a certain legal maximum; but they allowed arrears to accumulate and end in slavery. Solon was the first great free-trader (in the large sense), and it was largely due to his legislation that Athens, the capital of a poor tract of country, became wealthy. Capital being no longer able to feed on the necessities of the poor was diverted to trade; and the poor cultivators being unable to borrow, swelled the ranks of hired labour. The commercial position of Athens was in many respects similar to that of Holland. Athens like Holland was naturally poor, but became the mistress of the seas and made large profits by the carrying trade. The trade of Athens was largely carried on with borrowed money, and the rate of interest was high.

[1] Quoted by Grote, Vol. III., p. 146.

[2] The popular idea that he lowered the rate of interest has no authority.

[3] See below, § 4.

Under this stimulus a system of banking was established on which the rest of Greece depended. Trading with borrowed money at high rates (12 to 30 per cent are quoted) composed the chief part of the business of the bankers, and they attained such a high reputation, and such confidence was placed in them that, says Boeckh,[1] "business was transacted with them without witnesses, money and contracts of debt were deposited with them, and agreements concluded or cancelled in their presence."

The commercial prosperity of Athens is shown by the numerous regulations for the benefit of merchants, *e.g.*, that mercantile trials should only take place in winter, and by definite statements. "All the business," says Xenophon, "of Sicily, Italy, Cyprus, Lydia, Pontus, and the Peloponnese, Athens by her empire of the sea is able to collect in one spot." The empire of the sea has in general been short-lived, and Athens lost her commercial supremacy through well-known political causes.

This brief reference to the economic history of Athens brings out clearly two great causes of high rates of interest: one a sign of the greatest misery, the other of the greatest prosperity. The rates exacted from poor cultivators on the security of their liberties were usurious in the worst sense of the term, and they caused disastrous social results. And it may be said generally that in every undeveloped agricultural society where money-lending is possible, it is a curse; and the only remedy appears to be to strike at the so-called security of the lender.

On the other hand, the high rates obtained from advances on bottomry and merchandise were due to the rapid growth of a highly profitable foreign trade, from which Athens

[1] *Economy of Athens*, p. 125 (translation). This work still gives the facts in a convenient form, and the comments are for the most part too absurd to distract the attention, *e.g.*, immediately after the sentence quoted B. states that the bankers and money lenders drew on themselves the merited hatred of all as being the most infamous of human beings; and he ascribes the high rate of interest to the want of security caused by Solon's legislation.

gained far more wealth than would have been possible by the most intensive cultivation of her territory. This wealth provided the necessary material basis for the unrivalled works of the age of Pericles.[1]

§ 4. *Roman Economy and the Rate of Interest.* The early economic history of Rome is similar to that of Athens; the small farmers were led into debt by war and famine, and slavery was the only form of bankruptcy. Accordingly we find about 500 B.C. (a hundred years later than Solon's legislation) attempts to deal with the evil. By the legislation of the XII. Tables a maximum rate of interest was fixed, which, though apparently 12 per cent, was intended to be low, but the severity of the law of debt was left untouched.

Repeated attempts were made to deal with the abuses of usury by regulating the rates, but the root of the evil lay in the legal powers of the creditor, and these were only curtailed in form. The maximum rates were reduced, and as early as 342 B.C. usury was declared illegal. But the law was evaded by fictitious loans, and for the principal of a debt (though fictitious) the severity of the old law was practically unaltered. During the next period of Roman history from the subjugation of Italy (273 B.C.) to the conquest of Carthage and Greece (146 B.C.) the evils inherent in the social system increased. Just as the Roman farmer of the earlier period had been destroyed by a pernicious law of debt and heavy taxes, so, in this period, the Italian small farmers were ruined indirectly by the same means. The conquered provinces were taxed to the uttermost farthing;[2] great quantities of cheap corn were poured into the capital; none but the large holders of land with slaves on the footing of cattle[3] could withstand competition of this kind, and the Italian farmers

[1] Cunningham (*Western Civilisation*, p. 120) considers this unproductive expenditure on public works as a contributory cause to the downfall of Athens. [2] Cf. Mommsen's *History of Rome*, Vol. III., pp. 395-401.
[3] *Ibid.*, Vol. II., p. 366.

passed under the yoke of usury into slavery or degraded pauperism.

This glut of corn from the provinces was again largely due to the abuses of usury. The system of banking which the Athenians had developed for commerce was fashioned by the Romans into an instrument of extortion. The *argentarii* formed an important exclusive corporation with branches throughout the Roman Empire. Their accounts were kept with perfect accuracy, they received money on deposit and allowed interest, they used cheques and bills of exchange, and in the course of time they obtained an enormous business. The excellence of the Roman roads, it has been said, is to be ascribed as much to the organisation of the banks as to the necessities of war.

In connection with the bankers, the speculative contractors must be noted. These contractors were middlemen monopolists and large capitalists. The state took the lead by letting all its more complicated revenues and all contracts for furnishing supplies to capitalists or associations of capitalists for a fixed sum to be given or received. Lands were leased or purchased in the colonies for producing corn and cattle on a large scale.

The tyranny of capital increased as the system of money-lending obtained a more perfect organisation. It was a tyranny of the most effective kind, and every banker had his debtors' prison.

The wealth of the Roman capitalists at the time of the power of the Republic was obtained directly or indirectly from the plunder of the provinces. The coöperation of rude economic conditions and the unscrupulous employment of Rome's political ascendency for the benefit of the private interests of every wealthy Roman rendered a usurious rate of interest universal. The taxes were let to the highest bidder, and the provincials were at the mercy of officers who had purchased their offices by bribery. To what a pitch the extortion of these tax-gatherers attained is shown by a master hand in the oration of Cicero against

Verres. Organised robbery was a substitute for commerce, and the provincials were obliged to borrow from their masters at usurious rates. The war tax imposed by Sulla in the province of Asia (84 B.C.) which was advanced by the capitalists, swelled with paid and unpaid interest within fourteen years to sixfold its original amount. The virtuous Brutus lent money to the people of Cyprus at 48 per cent. The wealth extracted from the taxpayers was partly employed in large undertakings worked by slaves with an absolute disregard of humanity, and partly it was poured into the capital, where it was consumed in outrageous luxury or used to buy up the highest offices. The *jeunesse dorée* of Rome borrowed at extravagant rates till they could no longer support the burden of their debts, and then redressed their fortunes by obtaining a province. Cæsar before he had filled any office at all was in debt to the extent of more than a quarter of a million of our money.[1]

Cæsar, however, rendered a service to Roman civilisation which, late as it came, was worth many millions. He abolished the old law of debt which had virtually been in force for five centuries, from the time of the XII. Tables. He gave the debtor the right of formally ceding his estate to his creditors whether it sufficed to pay them or not, and the debtor was thus enabled to save his personal freedom and begin a new existence. The importance of this early bankruptcy law was very great. It is true that the adoption of the principle of Solon had come too late to save the old middle classes of Rome and Italy, but with the establishment of the Empire and the ultimate cession of civic rights to all persons this law ameliorated the condition of debtors and put a check to the omnipotence of capital throughout the civilised world.

The real tyranny of capital in the later days of the

[1] For full details of the wealth and extortions of Roman capitalists see Marquardt and Mommsen, *Handbuch der Römischen Alterthümer*, Vol. II., pp. 51-68.

Republic, compared with the imaginary tyranny of the present day, affords one of the best practical tests of the economic progress of the civilised world. We have a faint analogy in English history of the methods of Roman political corruption in the case of the "Nabobs" in the eighteenth century, who plundered India and then forced up the price of seats in the House of Commons. But the plunder of India was relatively merciful, and the political power of the Nabobs at home was relatively nominal compared with the devastation of the Roman provinces and the effective control of the central government by the monied classes.

It is worth noting, however, that just as at present usury in the old sense exists to some extent, so also interest in the modern legitimate sense was to some extent prevalent in ancient Rome. The tremendous concentration of capital in the city of Rome itself made the rate of interest on first-class securities extremely low;[1] thus in 54 B.C. it was only 4 per cent, whilst in the anarchy which followed it only rose to 8 per cent. But in the city itself usury also was rampant for the purposes of political corruption and private debauchery, and in the provinces — as already observed — usury of the worst type was universal.

§ 5. *Loan Interest under the Roman Empire.* The history of the decline and fall of the Roman Empire might be written with interest or usury as the principal character in the drama. In the golden age of the second century, which Gibbon has described "without hesitation" as the most happy and prosperous period in the history of the human race,[2] the rate of interest was low and the abuses of usury were slight. The contractors and politicians had been extruded or muzzled. There is abundant evidence, however, that in the third and fourth centuries the evils of usury appeared on a large scale.[3] As in earlier times, the root of the evil was to be found in excessive taxation. This was aggra-

[1] Marquardt and Mommsen, Vol. II., p. 61.

[2] *Decline and Fall*, Vol. I., Ch. III.

[3] *Cf.* Cunningham, *Western Civilisation*, p. 187.

vated by the unfavourable balance of trade experienced by the great mass of the provinces. There was a growing scarcity of bullion. The supplies from the mines probably diminished, and the drain to the East and the consumption in the arts constantly increased. Successive depreciations of the currency only increased the evil. The pressure of taxation and the diminution of capital gradually crippled the productive powers of the provinces. Coupled with their loss of productive powers was the contraction of economic freedom. It is true that as regards the law there was a continuous amelioration in the condition of slaves proper, but there was a corresponding deterioration of hired labour. "The taxpayers' necessities were the usurers' opportunities," but as Dr. Cunningham observes, "it would be a mistake to suppose that the moneyed men who advanced money on usury and farmed taxes had an easy time of it. Their position corresponded with that of the Jews in Angevin England; they were the instruments of oppression, but they were mercilessly squeezed themselves."

The pressure of public burdens, of which usury was one of the most striking symptons, gradually restrained material progress as it contracted economic freedom, in every department of industry. Even Justinian, whose name is associated with the system of law that still governs a large part of the world, played a considerable part in this contraction of economic freedom. He instituted the monopolies which later on did so much for the ruin of Constantinople[1] and the Empire of the East. Under this emperor, however, the evils were only beginning; and the rate of interest allowed by law was 6 per cent in ordinary transactions, 8 per cent for mercantile loans, or 12 per cent for advances on bottomry, and it is probable that the law only confirmed prevailing custom.

The history of the decay of the Roman Empire is carried by Gibbon down to the sixteenth century, but in general for economic purposes, especially if England is taken as

[1] See below, Bk. V., Ch. II., § 4.

the centre of the inquiry the thousand years from the sixth to the sixteenth centuries may be considered separately under the title of the Middle Ages.

§ 6. *Loan Interest in the Middle Ages.* "In the first years of the Empire," says Guizot,[1] "everything indicated a society in course of development or civilisation in progress . . . . At the end of the fourth century not only had all social progress ceased, but a retrograde movement was sensibly felt." Sir Henry Maine, in discussing the origin of primogeniture, argues that society had retrograded to a primitive type and was compelled to adopt primitive institutions. Passing over the larger question of general progress there can be no doubt that as regards material wealth there was decided retrogression, *e.g.*, brick-making and banking were lost arts, where once they had flourished, and slavery took a new lease of life. Feudalism at its worst seemed to threaten the very existence of society — as in England, for example, in the reign of Stephen. A new civilisation had to be evolved of which Christianity and individual freedom were to be the spiritual life. The abuses of the mediæval Church, which in the end rendered the Reformation a political and economic necessity, have blinded us (in England) to the economic benefits of Christianity during the earlier mediæval period. But in that period more than ever perhaps in the world's history a great effort was made to harmonise the conflicting wants and activities of human nature. The watchword of the great Christian thinkers, the men of genius, of spiritual insight, and of fearless devotion whose thoughts at once expressed and guided the strivings of popular beliefs might be modernised in the imperative: moralise your economy and spiritualise your morality. The development of the Canonist doctrine on loan interest affords a good illustration and at least a partial proof of this position. It was much more than a straining of the text of Scripture on the sinfulness of usury and of the text of

[1] *History of Civilisation in France* (translation), Vol. I., p. 303.

Aristotle on the barrenness of money. It had no doubt its negative side, and its prohibitions and condemnations if applied *verbatim et literatim* to modern conditions would make Lombard Street as deserted as Pompeii. Such a test, however, is altogether unfair. The proper comparison so far as condemnation was concerned is not Lombard Street but Isaac Gordon. The Canonist writers in their prohibitions were dealing with those very practices in the condemnation of which the last (1900) Money Lending Act is obliged to resort to the mediæval term "unconscionable." The Canonist doctrine was an attempt to provide religious, moral, and legal sanctions against abuses that were universal in all early civilisations, and which survive as important exceptions at the present time. It has been said that the thinkers of the Middle Ages only very gradually worked their way from the conception of a number of particular prices to the conception of a general purchasing or exchanging power. But the thought conformed to the fact. The development of interest on money is in many respects analogous to that of the rent of land. For many centuries the ownership of land enabled the owners to exact monopoly rents in the widest and rudest sense of the term. As shown in the preceding chapter, the rent of a piece of land was not paid out of the surplus produce of that land, but out of the general ability of the tenant, and similarly during the same period the interest of money was in many cases not paid out of the profits made by its use, but out of the general ability of the borrower. In the case of land, the lord could exact from his bondsman all kinds of tallages, amercements, and precarious services, and in the case of money the lender under various names devoured the whole substance of the borrower. The mediæval usurer of this type was in truth far more rapacious and exacting than the worst mediæval land-owners; the latter were restrained partly by custom, which gradually became more and more favourable to the serfs, and partly by the economic consideration that at least the land

and a minimum of subsistence must be left to the cultivators. But the usurer had no such limitations — and he devoured his debtor body and soul. Thus, in one very important respect, villeinage may be regarded as comparatively beneficial to the masses of the people. It was a natural economy that protected them against the abuses of a money economy. Whatever interest custom might assign to the villein, he certainly had no interest which he could mortgage; if he could not leave the land, neither in general could the land leave him. The Jew plundered the lord of the manor and the king plundered the Jew, but the suckers of usury did not reach down to the villein. The custom of the country gave him a surer safeguard against the money-lenders than the wisest legislation of Solon and Julius Cæsar.[1]

In the nineteenth century the peasants of Germany and Russia, in the course of progress, have in many cases exchanged the serfdom of the lord for the bondage of the Jew — the whip for the scorpion.

The condemnation of usury by the Church was for the

[1] The monograph by Dr. Cunningham on Usury, and the exposition of Professor Ashley of the Canonist doctrine on Interest (Usury), bring out with remarkable clearness and judicial impartiality the growth of mediæval opinion and the adaptation of opinion to changes in the economic environment. The chapter by Madox on the Exchequer of the Jews, supplemented by the work of Mr. Joseph Jacobs on the Jews in Angevin England, affords materials which deserve special study. It must not be forgotten that the *exilium Judæorum* in 1290 was not entirely due to the popular detestation of usury, for to say nothing of religious and race animosity we read that many escheats both of lands and chattels came into the king's hands (Madox). The regulations regarding the custody of mortgages, etc., were designed partly at any rate in the king's benefit — that he might know how much his Jews could afford to pay. The king had borrowed money at interest of the brethren of the Temple as early as 1274, and it is probable that he hoped to make more by giving the monopoly of money-lending to the Lombards, otherwise he would hardly have consented to lose the large revenues obtained from the Jews.

Progress in the concrete can hardly find a better illustration than a comparison of Bagehot's Lombard Street with Madox's famous chapter on the Exchequer of the Jews.

most part aimed against exactions which have always been regarded as immoral and which the most civilised nations still endeavour to make illegal. This condemnation was enforced, especially against ecclesiastics, by religious sanctions; and in some cases the doctrine was carried to an extreme — just as the condemnation of gluttony, unchastity, and other deadly sins led to the extremes laid down by the original rules of the various religious orders.

There can be little doubt that in condemning usury the Church did not go beyond the common-sense morality of the time. A case is recorded by Madox[1] in which a Jew sought a decision from the Court of the Exchequer of the Jews to the effect that by Jewish law one Jew could not lend to another on usury. In the same way whilst the Jews were suffered to lend to Christians (under minute and stringent regulations) it was thought sinful and immoral for Christians to exact usury from one another.

On the positive side, however, it was soon recognised by the Canonist philosophers that there were various cases in which what we should call economic services deserving a reward were mistaken for usury. Accordingly much learning and analytic power were expended in transferring these services from the category of sins to the category of virtues. The principle of formal justice which is so efficient in the application of morality to practical economics (*e.g.*, the morality of taxation) was sufficient to effect the transposition of one important class of these sins. It was thought that the prohibition of lending for gain (*ne quid ultra sortem*) did not involve the duty of lending at a loss. Accordingly the lender might claim that the borrower should restore the loan under such conditions that the creditor suffered no loss. In the end the Canonist doctrine was found to include any real loss suffered by the lender, owing to the deferred use of his means, and the term "interest" (*inter esse*) is supposed to represent the difference between the actual condition of a creditor and the

[1] *Exchequer*, Ch. VII.

condition he would have been in if he had retained possession of his wealth. Thus it appears that the leading idea of Boehm-Bawerk had been revealed to the mediæval monks. The Canonists also recognised the principle of insurance, especially as applied to the merchandise of foreign trade, and the sleeping partner very early was adorned with that cloak of respectability which our modern purists still refuse to the sleeping landlord.

This justification of interest, however, was a bridge by which a multitude of sins could troop over to the side of virtue. The very religious man who could not show to the satisfaction of his confessor that there was *damnum emergens* or *lucrum cessans* could probably plead *periculum sortis*, and that he was entitled to a reward for the risk of the principal. This idea of reward for risk was of especial importance in the development of partnership and the application of the capital of private persons to the uses of trade. At the same time various other forms of economic activity which at first sight had seemed to partake of the nature of usury were brought under the approval accorded to social labour and the promotion of social good. It is true, no doubt, that the method of legal fictions was also resorted to for the purpose of reconciling antiquated rules with new practices. On the whole, however, there was a gradual recognition of the economic principle that manual labour is only one species of economic effort and that the ventures of capital also deserve their reward.

The cities of northern Italy give the best materials regarding loan interest obtained from the profits of trade.[1] Of these Venice was at first the most important, but later on Pisa, Genoa, and Florence were prominent. These and other cities were enriched partly by trade with the East and partly by the Crusades. The Doge Mocenigo is reported to have said of the wealth of Venice that the

[1] *Cf.* Hallam's *Middle Ages*, Vol. III., p. 329; McCulloch, "Treatise on Economical Policy," *History of Italian Commerce*, p. 308.

city employed ten million ducats in mercantile capital in different parts of the world, and that the annual profits of the traders on this sum was four million.[1] At Modena, in 1270, the ordinary rate of interest was 20 per cent. By the end of the fourteenth century, just before the establishment of the Bank of Genoa (1407), the rate in Venice had fallen to 7 per cent. In 1479 the king of France agreed to pay the king of England an annuity of sixty thousand crowns, and it was specially stipulated that the partners of the Bank of the Medici should be responsible for its punctual payment—a striking testimony to the development of Italian banking and credit.

The decline of the Italian cities through political causes, and through the discovery of America and of the Cape route to India, marks the transition from the mediæval to the modern period in which Holland and later England gained the supremacy in finance. With the close of the mediæval period "usury" more and more gives place to interest, just as "monopoly" exactions from land gives place to economic rents.

§ 7. *Loan Interest since the Mediæval Period.* In tracing the effects of industrial progress on the rate of interest in modern times the differentiation already observed becomes more marked. Loans as before may be divided into two groups, according as they are obtained for profitable employment or for the necessities or desires of consumption. In both groups the variety of subclasses is greatly increased, and it is only necessary to note the principal points of contrast with earlier conditions.

In the first place, with the exception of a few "survivals," the monopoly of the lender has disappeared. In the case of pure interest, indeed, the competition of a well-organised market finds perhaps its best illustration. Given the same security, negotiability, and generally the same net advan-

[1] Hallam's *Middle Ages*, Vol. I., p. 465. At the same time it is stated that the housing is valued at 7,000,000 ducats and the rental at 500,000, *i.e.*, the rental of houses is about 7 per cent.

tages, the rate of interest tends to equality more readily and over a wider area than is the case with any other prices. The needs of the particular borrower no longer place him in the power of the particular lender, and with a few relatively unimportant exceptions loan capital has altogether lost its mediæval particularity.

Secondly, it follows that — given equal security — the difference between loans for productive and unproductive purposes has entirely disappeared. The general rate of interest depends on the general conditions of demand and supply. Under present conditions at any time the demands of states and municipalities for loans may exceed in importance the aggregate demands of industrial concerns, and the sum total of public investments of this kind is enormous.

Thirdly, as the result of this equalisation of interest its burden has greatly decreased. It is plain that no one will borrow for productive purposes except with the hope of making an additional net profit, and thus every loan of this kind (assuming the calculation just) points to the motive of an economic advantage.

Fourthly, the development of the law of bankruptcy and of the principle of limited liability has rendered the lenders cautious on their side, and a check is again imposed on the waste of capital.

Fifthly, at the same time the development of public credit has given greater security for public loans.

The public creditor is not likely to suffer whilst the taxpayer can be mulcted for the interest. But there is unfortunately no such guarantee that public loans will always promote the advantage of the borrowing society whether state or municipality. The policy of public debts must, however, be deferred for subsequent consideration.[1]

§ 8. *Progress and the Rate of Interest — Summary.* The preceding inquiry has shown that even interest, apparently the simplest element in gross profits, is the resultant of a

[1] In Bk. V., Ch. XVIII.

number of complex forces.[1] It is true that the rate of pure interest may now be ascertained by referring to the yield on first-class securities, but it does not follow that the causes of changes in the rate can be so easily ascertained and still less can they be accurately measured. It is an old idea that a low rate of interest is associated with industrial progress. Sir Josiah Child, in his *Discourse of Trade*, calls the low interest of money the *causa causans* of the prosperity of Holland.[2] He also tries to show by "impartially searching our books" that the riches and splendour of England have been increased with the fall in interest, and he supposes they would increase still further with a further fall. He supports the historical with the comparative method, and concludes from references to Scotland, Ireland, France, Italy, and Spain that riches vary inversely with the rate of interest. During the two centuries that have elapsed since Child wrote this idea has persisted, the only difference of opinion being as to the nature of the connection and the reasons to be assigned. It cannot be said, however, that the appeal to history is conclusive. In the reign of George II., the net yield to the investors in British funds fell to £2 16*s*. 0*d*. per cent, which is the present (1901) return to the British War Loan and less than the return on average first-class securities. In 1776[3] it is said that half a million of money was lent in Scotland at 3 per cent, which is the present official rate on first-class landed security. It would, however, be manifestly absurd to maintain that England and Scotland have remained stationary. If the rate of pure interest can be said to measure progress at all, it is probably not by any absolute fall, but by the diminishing difference between the pure rate and the average market rate on all kinds of investments. As industrial conditions improve, more and

[1] See also analysis of causes affecting the rate of interest, Bk. III., Ch. XXII.

[2] *Discourse of Trade* (4th edition, p. 8).

[3] Macpherson's *Annals of Commerce*, *sub anno 1776*.

more securities enter the first-class list. But this increase in first-class securities tends of itself to raise the pure rate.

§ 9. *Progress and General Profits — the Measurement of Profits.* If, however, the connection between interest and progress is difficult to determine, to discover any precise connection between profits and progress seems hopeless.

The complexity of the problem becomes obvious if we consider the mode in which profits are usually measured and the origin of this method of estimation. For a long period landed property of some kind was practically the only form of investment[1] open to persons not engaged in trade, and the yield on the purchase money was the only form of obtaining interest. Sometimes instead of the land itself being bought and sold, we find rent-charges; and "in the earlier centuries before the alienation of servile tenements became common it would often be possible to buy a rent charge where it would not be possible to buy the land itself."[2] It is probable that it was from the practice of rent-charges that the idea of percentages was introduced into the practice of interest.[3]

For many purposes land may be considered a species of capital and rent a species of profit. Indeed, the old legal definition of rent adopted by Blackstone is that "rent is a certain yearly profit arising out of lands and tenements corporeal."[4] This profit must be certain (*i.e.*, in the legal sense), must issue yearly, and must issue out of lands and tenements wherewith the owner or granter of the rent may have *recourse to distrain.*

But, on the other hand,[5] for many purposes it is more convenient to distinguish between land and capital and between rent and profit. And although for most purposes

[1] For a curious instance see *Paston Letters*, Vol. III., p. 162.

[2] Ashley's *Economic History*, Vol. I., Pt. II., p. 406.

[3] The German word for interest, *Zins*, is derived from *census*, *i.e.*, rent; whilst the French *rente* refers to interest on any form of property. See above, Vol. I., p. 402.

[4] Blackstone, *Commentaries*, Bk. II., Ch. III.

[5] See above, Bk. I., Ch. VI., § 5.

the practice of measuring profits as a percentage on the capital obtained annually has been generally adopted, it is well to bear in mind the origin of the custom and to note the differences between a simple rent-charge and other species of profits.

Trade profits, for example, are by no means certain (legally or otherwise), the profits do not issue yearly,[1] though a yearly estimate may be made, and the trader has to venture his capital without any ulterior security for the profit in the shape of lands or tenements corporeal, and in the ordinary case without any legal security whatever.

Profit per cent per annum is only a mode of estimating the actual profit derived from the turnover of the capital.[2] The capital value of any business at a particular moment of time is the sum total of all its assets less its liabilities, and the difference between any two dates is the gross profits over the period.

How much of the gross profit of a business is put down as interest or as insurance (*e.g.*, by creation of a reserve fund) or as wages of management, will depend on the custom of the trade; but we may be sure that for the owner of the capital, if there is anything left over the term, profit will be elastic enough to cover it, and for purposes of theory there is the conception of *quasi*-rent.

§ 10. *Profits and Prices.* In recent years much attention has been devoted under the leadership of Professor Marshall to the exposition of the resemblances between the rent of land and other forms of income, and in nearly every form of income for relatively short periods an element of *quasi*-rent is discovered. The essence of the resemblance seems to be found in the development of the old proposition that price determines rent, not rent price. The income derived from any appliance or factor of production depends upon the price of the product (and not the converse), so long as the period taken is relatively

[1] *Cf.* Adam Smith, Bk. I., Ch. IX.

[2] *Cf.* Marshall's *Principles*, Bk. VI., Ch. VIII., on this distinction.

so short that there is not time for the supply of the appliance or factor to be influenced by expansion or contraction.

My difference with Professor Marshall on this point was almost entirely as regards the economy of language. Technical terms ought not to be multiplied beyond necessity, and the prefix *quasi* has, in general, served to gather rather than scatter the clouds of misunderstanding.

As regards the substance, however, of the analogy between economic rent and profits it may, I think, be extended much further.[1]

When once a society has passed from a natural to a money economy, the monetary valuation of capital (and thus also that of profits) is no longer a secondary, or accidental, but a primary quality.

What Mill calls the incident of exchange becomes in fact an essential part of the substance of capital. This historical fact had been thoroughly grasped by Adam Smith in regard to circulating capital. Circulating capital is that which affords a revenue by changing hands. The revenue or profit arises solely from a continuous oscillation of exchanges between money and goods, goods and money. The capital continues its existence by retaining its money valuation; anything beyond is profit and may be lopped off as revenue; anything below so far shortens its life, unless the defect is made up from future profit.

With fixed capital, "which yields a revenue without changing masters" at first sight, this character of exchange seems excluded from Adam Smith's conception. Thus to take his example of seed corn: "Though it goes backward and forward between the ground and the granary, it never changes masters, and therefore does not properly circulate. The farmer makes his profit not by its sale, but by its increase."

It is easy to show, however, that even in agriculture the money valuation is essential to fixed capital. Recently many English farmers went on growing wheat with falling

[1] See above, Vol. II., p. 81.

prices, but though the seed was returned sevenfold as before, the profit became less and the capital dwindled.

Similarly as regards buildings, machinery, and the like: they may be kept in good repair and worn out parts may be continuously replaced; but whether or not this part of capital has suffered real depreciation, depends also on the competition of other agents of production affecting the prices and also on the sales of the product. Machinery that can only make unsaleable goods has logically lost its value as capital as effectually as if it had been corrupted by rust or destroyed by rioters.[1]

§ 11. *The Tendency of Profits to a Minimum.* "To popular apprehension," says Mill,[2] "it seems as if the profits of business depended upon prices"; and later on in dealing with the tendency of profits to a minimum[3] he controverts Adam Smith's argument on the interconnection of profits and prices. But as is so often the case with Mill's paradoxes, Adam Smith and popular opinion express a great truth which Mill conceals with refinements of language. Profit, argues Mill, arises not from the incident of exchange, but from the productive power of labour.

But under a monetary economy all profits depend upon differences in relative prices, and the number of prices of sufficient magnitude to affect the margin of profits in any

[1] It is worth noting that Adam Smith's position on fixed capital is still that which is applied in the Income Tax assessments and in the Companies Acts. The theory in both Company and Income Tax law seems to be that fixed capital has not to be replaced before profits are arrived at. The only notable exception is that an allowance may be made in Income Tax returns for the wear and tear of machinery and plant during the year; none, however, may be made for depreciation of value.

According to the Companies Acts profits are the excess of earnings over disbursements without any deduction for loss of capital.

As regards economic theory, however, it may be pointed out that the Income Tax law is full of anomalies and inconsistencies, and in practice if a shareholder in a company receives larger dividends from "wasting" subjects, he must, to keep his capital intact, himself set aside a sum for depreciation.

[2] *Principles*, Bk. II., Ch. XVI., § 6.

[3] *Ibid.*, Bk. IV., Ch. IV., § 1.

particular business is very great. The price of the labour directly employed is not always of predominant importance. Since, moreover, all prices depend upon demand as well as on supply, any account of profit which refers only to the productive power of labour omits the principal and most difficult parts of the problem. Even from the point of view of production in the narrowest sense of the term the exposition is incomplete: capital in this sense has also productive power; machinery may be substituted for labour and may be auxiliary to labour, and if wages are ascribed to the productive power of labour, profits may with equal justice be assigned to the productive power of capital.

Productive power, however, with the widest interpretation, cannot extend beyond supply, and both wages and profits in societies resting on exchange must depend equally on demand.

Money wages and profits are both cases of relative prices. Considered from this point of view, there is, indeed, one sense in which the tendency of profits to fall with the progress of society may be affirmed as a general proposition — and that is in the sense plainly indicated by Adam Smith. So far as profits depend on buying to sell again, the increase of competition tends to diminish the differences between the buying and selling prices. In general competition prices are lower than monopoly prices. This argument applies also to the difference between the price of labour and the sale of its product; the profits of interchange fall as the difference diminishes, and either the labourer or the consumer must reap the benefit. If, then, as is the case in modern industrial societies, the great body of labourers is the same as the great body of consumers, we may say that real wages rise at the expense of profits.

As already explained, however, profits is complex, and a large part is itself wages. It is quite possible that the wages of management per unit of time may rise continuously compared with other kinds of time wages, whilst

profits on the turnover of capital are continuously diminished. Men more often become millionaires by handling large capitals with small differences, than by handling small capitals with large differences.

The wages of management of large capitals is *per unit of time* by far the highest of all wages. So high, indeed, is the reward that the term "wages" seems altogether inapplicable in many cases, and *quasi*-rent is more suggestive of the fabulous riches involved.

Similarly as regards the third element in gross profits, namely, insurance against risk. In the course of progress the sphere of insurance extends, and so far the element of risk is extruded from gross profits. The mediæval shipowner had to take the risk of all kinds of perils, the insurance against which is now as much a part of cost as the safety valves in the boiler or the water-tight compartments.

But the maxim still holds good that the greater the risk to the individual the greater the profit. The organisation of modern markets affords the possibility of immense gains, provided the speculator risks everything. Risk, of this kind, however, is the risk of speculation, and obviously does not admit of insurance.

But speculation may mean anything from reckless, ignorant gambling, in which one man's gain is another man's loss, to far-seeing calculations of the course of progress in all its departments. Speculation of this second kind sometimes deserves to rank with the highest efforts of practical genius, for without it such efforts never gain an opportunity for realisation. Occasionally, however, even bona-fide and well-founded speculation obtains an extravagant reward as the result of good fortune; but such occasional rewards encourage the highest forms of enterprise. It is, however, useless to attempt to strike an average in cases of this kind.

On the whole, the conclusion is that if the expression, "general rate of profits," is still retained in its widest significance, the effects of progress on this general rate must be said to be indeterminate.

NOTE ON PROFITS AND PRICES.

It may be admitted that Mill is perfectly correct in denying that high prices make high profits if by high prices is meant simply a high general level of prices, or a low exchange value of money, which is supposed to have been definitely and uniformly established. But such an elementary exposure of a simple currency fallacy is impertinent to the subject in one sense of the term and to Adam Smith in the other.

If Mill had seen the real connection of profits and prices, he could hardly have formulated his proposition on the tendency of profits to a minimum.

That general profits tend to a minimum is, as a general statement, as unmeaning as that general prices tend to a minimum, the absurdity of which is obvious by expressing it in the form that the exchange value of money tends to a maximum. Under certain conditions certain kinds of profits tend to fall and some, indeed, may become negative; but, on the other hand, other kinds of profit may increase "outrageously."

All these various profits, once a money economy is established, may be treated as cases of relative prices, and none are due simply to the productive power of labour. A stock-jobber buys and sells particular shares and makes a profit, it may be, at the very same time and place; in other forms of trade the difference in price and the resultant profit depends upon the lapse of time or change of place, the commodity itself being unaffected; in other cases the owners of various kinds of fixed capital buy labour of various kinds and sell the amalgam of their product, the profit depending on a series of prices besides the prices of the labour directly employed.

Pure interest may be regarded as the difference between present and future price. A present sum of money is sold for a greater sum at a future time, and the difference is interest. "The essence of interest in short is discount."[1]

[1] Professor Smart's condensation of Boehm-Bawerk. "Interest and Capital" (translation), p. xx. See also note Bk. III., Ch. XXII., p. 219.

This mode of regarding interest is in effect the practical method of business. Calculations are periodically made in the financial papers on the yield to various stocks, and any rise in value is added proportionately to the interest derived *eo nomine* from the stock. Consols, and the leading English railway debentures, are usually regarded as types of perfect security, especially for bankers. They are so in the sense that the interest they bear will be regularly paid during the period assigned; but the capital value of these annuities is liable to constant change, and the returns to the investment depend also on the price of purchase and sale. A bank may easily lose money in these perfect securities instead of gaining interest. Accordingly banks use such securities largely as providing reserves for cases of need, and they make their profits by discounts and loans in which the return of the principal is certain at a certain time.

The element of indemnity for risk is also naturally expressed in terms of prices. If the risk to principal or interest is great, the present value is proportionately low, or the future is discounted at a high rate. The yield in cases of full payment must compensate for the total and partial failures of other cases. The whole business of insurance is a calculation of average prices founded upon probabilities determined by experience. When in any form of business separate insurance is impossible, still if the business is to continue, the prices of its products must suffice to ensure the capital involved. In other words, what can be set aside for depreciation of capital depends on the course of prices.

As regards earnings of management, they are best regarded as the price paid for a certain kind of labour. Any business in a satisfactory state must pay salaries to its managers or directors, and whether or not they happen to be the owners of the capital is theoretically a matter of indifference. These salaries considered as part of gross profits are again dependent on prices.

CHAPTER VII.

PROGRESS AND WAGES.

§ 1. *Progress and the Price of Labour.* In considering the effects of progress on wages, wages may in the first place be regarded as the price of labour. The price of labour is of course only one element affecting real wages, just as real wages again is only one element in general well-being; but the price of labour is a very important element, and changes in this price are associated with the greatest movements of economic progress. To get rid of other complicating circumstances, I have used the phrase price of labour. But the phrase without qualification is as vague as the price of animals or the price of produce. Labour embraces many forms of work (objective), and many kinds of feelings (subjective), and the price of any species may be quoted per unit of work done, *e.g.*, mowing an acre of grass, or per unit of feeling endured, *e.g.*, a day's labour in the fields.

The two methods of measurement are no doubt closely connected:[1] the time-worker must generally work up to a certain standard, and the piece-worker must take in general a certain average time. It is found, however, that in some cases, both theoretical and practical, the one method and in others the other method is preferable, whilst in some cases it is a matter of indifference.[2]

[1] There are also certain intermediate and supplemental forms, *e.g.*, task wages and progressive wages. See D. F. Schloss, *Methods of Industrial Remuneration* (3d edition), Ch. I.

[2] *Cf.* Sidney and Beatrice Webb, *Industrial Democracy*, Vol. I., Ch. V. It is shown *inter alia* that of trade unions with more than 1000 members (omitting unskilled and transport workers) 49 unions with 573,000 members insist on piece-work, 34 unions with 140,000 recognise both piece-work and time-work, and 38 unions with 290,000 members insist on time-work.

In the tables of Rogers the prices of agricultural labour are sometimes given by the day, sometimes by the piece (*e.g.*, threshing various kinds of grain). It is to be regretted that in the latest official return[1] on the earnings of agricultural labourers no figures are given of piece-work. A comparison of the nineteenth with the thirteenth century would be most interesting; and in many parts of England typical mediæval methods survived until quite recent years, *e.g.*, threshing with the flail, reaping with the sickle high on the stalk. In most works dealing with economic progress the price of labour has been considered almost exclusively with reference to estimates of variations in real wages. In making such estimates in general, ordinary unskilled labour has been taken as typical of all labour, and the price of wheat has been taken as typical of workmen's budgets, so that the progress or the reverse in real wages has been reckoned in terms of the pecks of wheat obtained.

In the present chapter I propose to deal mainly with a different problem, which is perhaps of much greater importance in estimating economic progress, namely, the variations in the relative prices of various forms of labour.

§ 2. *The Differentiation of Labour as shown by Prices.* The differentiation of labour is one of the most marked characteristics of economic progress, being indeed one aspect of division of labour. Two modern instances may be cited. The piece-work rates of the Lancashire cotton operatives are so complicated that both the employers and the work people maintain salaried professional experts who devote their whole time to the services respectively of the Employers' Association and the Trade Union. It is worth noting that the union official is appointed after competitive examination. Another example is afforded by the engineers. "A century ago, the small, skilled class of millwrights executed every kind of engineering operation from making the wooden patterns to erecting in the mill the machines constructed by their own hands. The mechanics in a great

[1] Report of Mr. Wilson Fox (Cd-346), 1900, see p. 19.

engineering establishment are to-day divided into numerous distinct classes of workers, who are rarely able to do each other's work." [1] And this is but one detail of the increasing specialisation of the engineering trade. These variations in work call for corresponding variations in wages, and the heterogeneity is best expressed in prices. What a contrast to the village smithy to which people in the early mediæval period brought their own iron or steel to work up into a plough-share or nails! [2]

Even in agriculture in the latest report we are told that among ordinary labourers there are many grades, and that the men who undertake the more skilled work generally receive higher wages.[3]

§ 3. *Progress and the Occupations of the People.* The increasing differentiation of labour may also be shown by direct evidence regarding the occupations of the people. In the fourteenth century Rogers [4] calculates, on the basis of the agricultural production, that the population of England and Wales could not exceed two and a half million at the highest estimate. The great bulk of this population was engaged in agriculture. Even the towns were largely agricultural, and the holidays of the Universities and law courts were ordered to suit the operations of the harvest.

According to the census of 1891 the population of England and Wales was 29,050,363. Of this number 1,050,464 *males* were engaged in agriculture. It is plain that at the

[1] S. and B. Webb, *Industrial Democracy*, Vol. I., p. 197. See also p. 105 for differences of wages.

[2] Rogers, Vol. I., p. 281.

[3] By Mr. Wilson Fox (1900).

A good idea of the complexity of modern industry as indicated by the variety of rates of wages in the United Kingdom may be formed by referring to the census taken by the Board of Trade for October, 1886. A summary is given in the Abstract of Labour Statistics (1900, Cd-119), pp. 120–148. These returns, however, refer only to manual labour and are only representative. See also the Report on Standard Piece Rates of Wages and Sliding Scales in the United Kingdom (1900, Cd-144) for a detailed presentment of the complexity of modern industry.

[4] *Op. cit.*, Vol. I., p. 57.

highest estimate the total number of *occupied* males in the fourteenth century could not exceed this figure, taking half the population as males and twenty per cent as under ten years of age. It thus appears that the number of males at present employed in agriculture in England and Wales is probably greater than in the mediæval period.

In the mediæval period, however, women were employed in agriculture almost as much as men, while at present they are employed hardly at all. But our census returns also show that of the total number of male workers in all industries the agriculturists constitute only 11.8 per cent.

§ 4. *Agricultural and Non-agricultural Wages.* As shown in the preceding section, one of the most noticeable features of English economic progress is the proportionate decrease of the agricultural to the non-agricultural occupied males.[1] This proportionate diminution, especially when taken with the practical disappearance of women from agriculture, if we compare the mediæval period with the nineteenth century, indicates very clearly two great factors of economic progress. In the first place, it indicates the great expansion of other industries — not merely manufactures,[2] in the ordinary sense, but all the occupations that go to make towns and cities.

And, *secondly*, this absolute increase of occupied males in other pursuits indicates great improvements in agricultural production, and shows that there is a greater surplus for town consumption. Since the free-trade era this interdependence of the commerce of the towns and the improvement of the country has been overshadowed by foreign imports. But when we make a complete survey of English economic history from the middle of the thirteenth century to the middle of the nineteenth century, foreign agricultural products are of minor importance.

[1] The employment of women is considered below, §§ 9–13.

[2] In 1851 those engaged in *manufactures* in England were 32.7 of those earning independent incomes as against only 30.7 in 1881. Marshall's *Principles of Economics* (4th edition), p. 355 n.

This proportionate diminution of males occupied in agriculture (or in the converse this growth in urban occupations) is closely connected with the rates of wages in agricultural and non-agricultural pursuits. The subject is extremely difficult and complex, even when treated on the large scale of Thorold Rogers and Vicomte D'Avenel, and compression is still more difficult. It is necessary to select typical examples. As a representative of non-agricultural workers, we may take the carpenter. Relatively to other industries, *e.g.*, spinning, weaving, mining, the work of the carpenter has remained comparatively similar throughout six centuries.[1] We have also continuous records from the middle of the thirteenth century of the carpenter's wages, and it is found that they correspond very closely to the wages of the mason, the tiler, the sawyer, the plumber.[2] The carpenter indeed not only represents his own trade but the building trade generally, and the building trade fairly represents ordinary skilled labour.

With regard to the history of agricultural wages there are several difficulties. Money wages, especially in the earlier centuries, are only part of earnings. The wages are often quoted by the unit of work done (*e.g.*, threshing of various kinds of grain *per quarter*, reaping, mowing, etc., *per acre*), and in comparing different occupations (*e.g.*, the farm hand and the carpenter) it is obvious that time wages must be taken. Time wages when quoted as such, or estimated from piece-work, are generally estimated by the day, which is certainly the most general measure of labour; but earnings (on the basis of the standard of comfort) are

[1] Vicomte D'Avenel gives reasons for taking the labour of the mason as typical in dealing with similar variations (*op. cit.*, Bk. III., p. 120). The carpenter's occupation is, perhaps, more extensive and less variable. It is noteworthy, however, that in general, from the mediæval period to the present day, both in England and France there is on the average little difference between the wages of the carpenter and the mason.

[2] Mr. A. L. Bowley takes the bricklayer as representative of the skilled tradesman, and the bricklayer's labourer of the unskilled ; the bricklayer is practically the same as the mason. *Wages in the United Kingdom in the Nineteenth Century*, § VIII.

more generally estimated by the year. The difficulty arises: how many working days are there in the year? The usual modern estimate is 300, and Rogers usually takes that figure even in the Middle Ages. Vicomte D'Avenel thinks 250 a maximum, and that it should, on the average, be much less. In agriculture much of the labour is engaged by the year, and the holidays may be taken as a benefit; but if the work is by the day, unless the rate of pay is high irregularity of employment is considered a proportionate evil.

§ 5. *Summary of the English Evidence.* 1st. From 1259 to 1350 Rogers calculates the average earning of the regular farm hand of the higher class at £2 7*s.* 10*d.* per annum. This is made up partly from the money valuation of allowances and extra earnings, — obviously a necessary correction, — but partly also by the estimated earnings of the wife and one child. Deducting this latter amount (for which there is nothing corresponding in the carpenter's earnings), we have £1 15*s.* 4*d.* The annual earnings of the carpenter are taken at £3 18*s.* 1½*d.*, the estimate being made for 300 days at the ordinary day's wage. At these rates the earnings of the carpenter are more than double those of the farm hand. It seems probable, however, that Rogers has underestimated the value of the various allowances of the agricultural and overestimated the regularity of the carpenter's work. In any case, however, it would appear that the carpenter earned at least 50 per cent more than the worker in agriculture.

From 1351 to 1400, by Rogers's method, the first-class farm hand receives £3 15*s.* as against £5 15*s.* 7*d.* for the carpenter. Deducting from the former £1 5*s.* for the wife and boy, the carpenter again earns more than double, and in any case he probably earns half as much more.[1]

[1] If we might take the thatcher's "help" as typical of unskilled labour, the rates are before the Plague (1259–1350) 1*d.*, and after (1350–1400) 2¼*d.* per day as against 3⅛*d.* for the carpenter in the first period, and 4⅝d. in the second. In the former case the carpenter's wages are more than

2d. From 1401 to 1540 the wages of unskilled labour generally (including ordinary agricultural labour) are 4*d.* per day as against 6*d.* for artisans (the carpenter is $5\frac{7}{8}d.$ average, and $6\frac{7}{8}d.$ the highest); the difference here is just 50 per cent in favour of the latter.

3d. From 1541 to 1583, after the great rise in prices, the same proportion is preserved, viz., average unskilled labour $6\frac{1}{2}d.$ as against $9\frac{3}{4}d.$ for the average artisan (carpenter, 10*d.*, average to highest $11\frac{1}{2}d.$).

4th. From 1583 to 1642 the average carpenter receives per week 6*s.* $2\frac{3}{4}d.$ as against 4*s.* 10*d.* for hedging and ditching. This proportion is less favourable to the carpenter. But the labourer to the artisan receives 4*s.* $2\frac{3}{4}d.$ only, against 6*s.* 4*d.* to the average artisan (carpenter, mason, bricklayer, tiler), which gives almost exactly 50 per cent advantage to the latter.

5th. The period 1642–1702 brings to light the beginning of a striking movement. The average carpenter receives per week 10*s.* $2\frac{3}{4}d.$ (highest, 12*s.* $2\frac{3}{4}d.$) as against 6*s.* $4\frac{3}{4}d.$ to the hedger and ditcher, *i.e.*, more than 50 per cent; and the labourer to the artisan has slightly higher wages (viz., 6*s.* $7\frac{3}{4}d.$) than the hedger, whilst in the period immediately preceding the reverse was the case.

It should be observed that hedging and ditching were generally considered as exceptional accomplishments of the farm hand,[1] and were paid for at slightly higher rates. It follows then that ordinary agricultural labour obtained still less than ordinary unskilled labour.

6th. From 1720 to 1800[2] the carpenter receives per week 20*s.* to 23*s.* as against 8*s.* to 10*s.* of the agricultural labourer and 11*s.* to 14*s.* of the common labourer (non-agricultural). The relative rise of the carpenter's wages and the depression of the agricultural labourer's is continuous.

three times, and in the latter more than double those of the common man. The "help," however, was probably a woman.

[1] Rogers, Vol. III., p. 476.

[2] These prices are taken from Palgrave's *Dictionary of Political Economy* (Article Wages).

7th. From 1804 to 1836 the figures are carpenter, 20*s.* to 23*s.*, agricultural labourer, 9*s.* to 10*s.*, common labourer, 13*s.* to 15*s.* The same movement of relative wages is observed in agriculture, whilst the advantage of the carpenter over the common labourer returns to its former 50 per cent.

8th. From 1836 to 1898 there is an almost continuous advance in carpenter's wages from 24*s.* to 26*s.* up to 32*s.* to 34*s.*, the corresponding movements in agricultural wages being from 10*s.* to 12*s.* up to 12*s.* to 16*s.*, *i.e.*, carpenter's wages are more than double; and in common labour (non-agricultural) from 15*s.* to 18*s.* up to 18*s.* to 22*s.*, which preserves very nearly the 50 per cent.[1]

§ 6. *Wages in France.* It is interesting to compare the extraordinary permanence in the difference between the wages of the common labourer and the artisan in England, with the results obtained by Vicomte D'Avenel for France. "The wage of the common labourer (*journalier*) stands at present (1897) in relation to that of the mason as 100 to 136. In round numbers the mason gains a third more

[1] See Mr. Wilson Fox's Report, p. 49, for agricultural wages from 1850 to 1899. For the nineteenth century generally, the reader should consult the work of Mr. A. L. Bowley on *Wages in the Nineteenth Century in the United Kingdom*, and the more elaborate papers by the same writer in the *Statistical Journal*.

The following is from Mr. Bowley's work on *Wages*, p. 70:—

TENTATIVE TABLE OF AVERAGE WEEKLY WAGES.

	1795	1807	1824	1833	1867	1897	Weights for average.
	s. d.	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*	
London type of artisan .	25 0	30 0	30 0	28 0	36 0	40 0	1
Provincial type of artisan	17 0	22 0	24 0	22 0	27 0	34 0	2
Town labourers	12 0	14 0	16 0	14 0	20 0	25 0	3
Agricultural labourers. .	9 0	13 0	9 6	10 6	14 0	16 0	3
Weighted average . . .	13 6	17 0	18 0	16 0	21 4	25 6	

It will be observed that from 1795 to 1833 the average of the provincial artisan is 21*s.* 3*d.* against 14*s.* for the town labourer and 10*s.* 6*d.* for the agricultural labourer. For 1867–1897 the figures are 30*s.* 6*d.*, 22*s.* 6*d.*, and 15*s.*

than the labourer, or the labourer gains three-quarters of the wage of the mason. Well, this has been the identical proportion during six centuries. In spite of their respective variations, which sometimes raise one and sometimes the other, we may consider that they maintain the mean proportion of 3 to 4."[1] It may be observed in passing that this is almost exactly the proportion of the wage of the town labourer to the provincial artisan in England, 1867–1897, viz., 22*s.* 6*d.* to 30*s.* 6*d.*

§ 7. *Wages in the United States.* The Massachusetts Bureau of Labour Statistics issued in 1885 a report on wages from 1760 to 1883.[2] It may be calculated from these figures that from 1780 to 1850 the average wages of the agricultural labourer are, in the proportion to those of the carpenter, as 100 to 147, whilst from 1860 to 1883 the proportion is 100 to 188. Since 1883 the movement has been in favour of the carpenter, his average wages being more than double those of the agricultural labourer.

§ 8. *Result of the Comparison of Agricultural and Non-agricultural Wages.* The general result of this survey of agricultural and artisan wages is that the latter have always exceeded the former. In England up to the end of the eighteenth century the wages of the carpenter are in general 50 per cent higher, and during the nineteenth century 100 per cent higher than those of the agricultural labourer. And it is perhaps even more remarkable that about the middle of the seventeenth century the wages of common unskilled labour (non-agricultural) begin to exceed agricultural wages until after a more or less continuous rise they are in the latest period (1867–1897) about 50 per cent higher. It is well known that, relatively, agricultural wages are higher in the manufacturing and mining districts than in the purely agricultural counties, and a reference to the figures of Rogers shows that in general wages in London are

[1] *Op. cit.*, Vol. III., p. 113.

[2] The tables are quoted in Mayo-Smith's *Statistics and Economics*, p. 312.

higher than wages in the provincial towns in which the connection with agriculture is much closer. If now we compare these records of wages with the movements in the occupations of the people, we find a natural explanation of the gradual diminution in the proportion of the rural to the urban population. Labour tends to flow where the reward is highest. But the astonishing thing is that in spite of the continuous migration from the country to the town, the balance of money wages is still largely in favour of the town. Nor can the difference be explained by reference to any or all of the so-called natural causes of difference in different employments. The town to the labourer is more attractive, and has probably always been more attractive than the country. It is a commonplace of all literatures that the happy peasant has never fully realised his own happiness. Again the labour of the shepherd, and of the ploughman, and of any persons who deal with animals requires a high degree of skill and trustworthiness; there is little or no chance of rising in the social scale — too often the workhouse is the last reward of the agricultural labourer. These facts have often been cited to show cause why country people move into the towns, but another deduction has been less noted. There can be no question that from the labourer's point of view the net advantages of the occupation are in favour of the town. It follows, therefore, that wages in the country should naturally be higher unless they are depressed by some other powerful causes. The prices of consumable commodities in former times gave advantages in some respects, as also the perquisites in the shape of produce. But in recent years these advantages have been inconsiderable, and are certainly not enough to account for the difference in money wages. We are thus thrown back for an explanation on the fundamental law of supply and demand. Once a country is fairly well peopled, and most of its available lands cultivated, there is little room for the expansion of agriculture. Many of the improvements that

take place are such as essentially to demand less labour. And on the whole the demand for labour is non-expansive. On the other hand, the supply of agricultural labour naturally increases, even when it is not directly encouraged by the laxity of an injudicious poor law.

Thus there is a permanent flow of labour from the country to the towns. Just as with the great flow of the waters between the Black Sea and the Mediterranean the tide always sets the same way, and age after age the Bosphorus runs like a great river through the heart of Constantinople, so the great stream of country folk passes on through the great cities of the world and returns no more.

It was well observed by Adam Smith that wages are highest in new industries, and that they rise with the increase of employment. But agriculture is the oldest of all employments, and relatively to other employments very soon becomes stationary or declining. The depopulation of the country has been the theme of all ages.

It is doubtful even if protective duties would do much to raise agricultural wages. It is far more probable that, as in the past, they would for the most part raise rents.

The observation of Adam Smith has been confirmed by subsequent experience and may almost take rank as an empirical law. With reference to the nineteenth century Mr. Hooker[1] has shown that there is a fairly close relation between the wages and the numbers of those employed in coal mines in recent years. Mr. Bowley[2] has stated generally, that if a list is written down of the trades whose numbers have increased more than the average, and of those trades whose numbers have decreased, or increased less than the average, it will be found that in general the wages of the former are precisely those wages which have increased more than the average wage and *vice versa*.

§ 9. *The Relative Wages of Women and Men.* In the

[1] *Statistical Journal*, 1894.

[2] *Wages in the Nineteenth Century*, p. 20.

mediæval period women were employed in agriculture nearly to as great an extent as men. They not only assisted in outdoor work generally, but did work now always associated with men. The "homo" or help of the thatcher of mediæval records was generally a woman, and women also washed and dipped the sheep, which fortunately were of a small size.

The records of Thorold Rogers tend to prove that from 1260 to 1702[1] the wages paid to women engaged in agricultural work were on the average about half the wages paid to men. It appears, however, from one statement[2] that if women do men's work, they receive the same pay.

It is worth noting also that in 1601 the rates of domestic servants in good households do not show such an excess in favour of males. Lord Spenser has 31 male and 9 female servants. The highest male and female receive the same rate, £10 per annum, whilst 27 males receive 40*s.* as against 33*s.* 4*d.* paid to 6 females.

From 1720 to 1787[3] woollen and worsted spinners, *women*, (single wheel by hand) earned from 8*s.* to 10*s.* per week, whilst worsted stuff weavers (hand loom), *men*, earned from 11*s.* to 15*s.*, and woollen cloth weavers 13*s.* to 21*s.* During the same time, however, common agricultural labourers, *men*, only earned 8*s.* to 10*s.*

In 1833[4] the average weekly earnings in 43 cotton mills in Manchester of males above 21 years of age 22*s.* 5¾*d.*; of females 9*s.* 6½*d.*

[1] Before the Plague (1350) the average woman's wage in agriculture was 1*d.* per day and after the Plague 2*d.* per day, the corresponding pay of the thatcher (who receives a little more than the ordinary labourer) being 2⅝*d.* and 3⅜*d.* Roughly from 1260 to 1400 women received half the wages of men. From 1400 to 1540 the rates are men 6*d.*, women 3*d.* From 1583 to 1642 the rates are 2*s.* 3*d.* per week to women, against 4*s.* 10*d.* to the hedger and ditcher and 4*s.* 2½*d.* to the labourer to the artisan. From 1642 to 1702 the rates are respectively 2*s.* 6¾*d.* against 6*s.* 4¾*d.* and 6*s.* 7¾*d.* These figures are taken from Rogers.

[2] Rogers's *Agriculture and Prices*, Vol. IV., p. 495.

[3] Palgrave's *Dictionary of Political Economy*, Article Wages.

[4] *Ibid.*, Article Female Labour.

In 1883 an enquiry[1] made into the relative wages paid to men and women in twenty-four manufacturing industries in Great Britain and Massachusetts show that in Great Britain the average weekly wage of women was 41 per cent of men's, and in Massachusetts 51 per cent. A notable apparent exception occurs in the Lancashire cotton weaving. The piece-work rates are the same for men and women, and sometimes clever women get through more work, and thus earn higher weekly wages than men. A similar equality of task wages is also said to prevail in cotton weaving in France.

A calculation based on the average rates of wages[2] in all the textile trades obtained by the board of trade in the census of 1886 shows that the average wages of men were 23*s.* 2*d.* as against 11*s.* 1*d.* for women. In the cotton manufacture men's wages were 25*s.* 3*d.* as against 15*s.* 3*d.* for women, whilst in "hair, elastic web, and lamp and candle-wick manufactures" the rates were 25*s.* men to 9*s.* 10*d.* women. In some of the other industries quoted, *e.g.*, tin-plate workers, the wages of men are more than three times those of women (33*s.* 5*d.* against 10*s.* 4*d.*). On the whole, however, it would appear that roughly the proportion is in general about two to one in favour of men in all the industries. With regard to agriculture, the latest official[3] report is silent. From private inquiries I find that in districts around Edinburgh the average wages of men are about double those of women — the work, however, being different in the two cases. When, as in some districts,

[1] The inquiry was made by the Massachusetts Bureau of Statistics of Labour in 1884. The results are quoted by Mr. Sidney Webb in his article on the "Differences of Wages paid to Men and Women," *Economic Journal*, December, 1891. This article contains much useful information on modern conditions. See also *Industrial Democracy*, Vol. II., pp. 495–507. The question is also discussed by Professor Smart in *Economic Studies*, pp. 107–141.

[2] Abstract of Labour Statistics (1900). In making the calculation I have taken a simple average in both cases.

[3] By Mr. Wilson Fox (1900), see p. 8.

women do the same work as men, the payments are the same. The noteworthy circumstance, however, about the employment of women in agriculture is that in England, except in some of the northern counties, it has ceased, and in Scotland it has greatly diminished.

§ 10. *Wages of Women and Men in France.* The researches of Vicomte D'Avenel have made available still more ample materials for the history of wages in France, and he has treated with great fulness and acumen the comparison of the relative wages of men and women. In this place only a few of the main results can be noted. Taking ordinary day labour, such as work in the fields, as the basis, it is calculated [1] that in the last quarter of the fourteenth century the usual earnings of women were 75 per cent those of men. In the last quarter of the fifteenth century the percentage fell to 55. From that time onwards [2] there are oscillations between 71 and 53. For 1897 it is calculated that for common day labour the average wage of women is 60 per cent that of men. The writer points out as regards other industrial occupations that the proportion is less in favour of women; in *la grande industrie* their wages being less than half those of men, and in *la petite industrie* about one-half. Thus on the whole the result is to confirm the English evidence and to strengthen the popular opinion that in most cases women earn only half as much as men. The chief difference is that the French evidence (perhaps because it is more abundant) shows greater variations in the details.

§ 11. *The Relative Wages of Women in Different Employments.* The French evidence is also more abundant and continuous on another point of great interest at the present time. In recent years there has been a great rise in the wages of women in domestic service relatively to other employments. In the fourteenth and fifteenth centuries Vicomte D'Avenel records that the wages of women employed in ordinary day labour (*journalière*) were much

[1] *Op. cit.*, Tome III., p. 36. [2] *Op. cit.*, Tome III., p. 100.

higher than those obtained by domestic servants. When both received food, the money wages were about double in the former case, and this difference was far more than could be accounted for by the saving effected by the domestic in having provided light, fire, and shelter. From 1600 to 1800 compared with 1300–1600 it is calculated that in the general fall of money[1] wages that occurred, whilst the *journalières* lost one-half the domestics only lost one-quarter of their wages. When we compare 1790 with the present time (1897) the relative rise of the wages of domestic servants is still more marked. Even taking the case of rural domestic servants only, their wages have risen two and a half times, whilst those of the *journalières* have risen only about 80 per cent.

The relative rise of wages of domestic servants in England during the last fifty years is too well known to require special evidence. If, however, we take the average wages of women in the textiles as 11*s.* 1*d.* per week, it is easily seen what an advantage is obtained by the domestic servant. Many classes of superior servants[2] obtain as much in money wages, besides receiving in addition board which probably costs at least as much more; and even if the money wages of domestic servants be taken on the average as low as 6*s.* per week (or £16 a year), the other elements in real wages give them a considerable advantage. The conditions of service during the last half century have probably improved still more than the money wages.

§ 12. *The Occupations of Women.* It has been observed that in the mediæval period women were employed in agriculture nearly as much as men. It may be added that even in the case of domestic servants, whether in the towns (which were for the most part villages) or in the country

[1] *Op. cit.*, pp. 34, 35.

[2] The Official Report, by Miss Collet, *Wages of Domestic Servants* (C-9346) (1899) gives an adequate idea of present wages. In London the average wage of servants under 15 is £7 3*s.*; of those between 35 and 45, £27 9*s.*; and the average of all ages, £18 1*s.* The estimated average for all England and Wales for all ages is £16 a year.

proper, much of their work was of an agricultural kind according to our standards. The latest census returns available (1891) for England and Wales show that the total number of females engaged in agriculture in England and Wales in 1891 was 51,696, whilst the aggregate of occupied females was 3,945,580.

Even of this relatively small number employed in agriculture, less than half were engaged in outdoor operations. By way of contrast it may be pointed out that the number of females engaged in domestic offices or services was 1,759,555, in the textile fabrics 628,001, and in dress 691,441, that is, nearly 80 per cent of the occupied females are in these three employments.[1] Of a total of females of 14,949,624, it is found that 11,004,044 are unoccupied. The significance of the change hardly requires comment. Any one who has seen women spreading manure over the fields in winter, as is still the practice in the fields that touch the suburbs of Edinburgh, will appreciate the progress from mediæval conditions. Agriculture is not all hay-making.

§ 13. *Causes of the relatively Low Wages of Women and of their Improvement.* There has been much discussion of the causes of the relatively low wages of women. A mere reference to custom is as unsatisfactory as in other cases of customary prices. A custom that has survived six centuries of competition must be firmly based on deep-rooted causes. The causes — being causes that affect relative prices — must be capable of being grouped under supply and demand. Compared with men, the field of employment for women or the demand has always been relatively restricted. Women have never found much employment in war, in transport by sea and land, and in mining; nor as smiths, or masons, or carpenters, or generally in occupations associated with the building trades; and they have in general

[1] Abstract of Labour Statistics, 1900. For further details, see Miss Collet's valuable Report to the Board of Trade (1894) of the Statistics of the Employment of Women and Girls.

been excluded from wholesale trade and the learned professions. A glance over the records of six centuries of wages is sufficient to show that the field for the employment of women has been contracted in many directions. Even in agriculture, certain operations have always been confined to men. And on the other hand, until recent times, there was very little specialisation of employment in favour of women. Men have been also employed in domestic service: in the great households there were often more men than women; men were also employed in weaving and in the decorative arts. When certain kinds of employment came to be considered as specially adapted for women, very often the determining cause was the cheapness of the labour.

As regards the supply on the other hand, it is well known that the distribution of the sexes is about equal, and the poorer the great mass of the people, so much the more necessary is it for women to seek gainful employments. On this point there is an instructive commentary by Vicomte D'Avenel. He accounts for the relative fall in the wages of women from 75 to 50 per cent of those of men in the lapse of four centuries (1400–1800) by the general impoverishment of the labouring classes, which made it necessary for more and more women to seek employment.

When men competed with women, the advantage in strength of position was usually with the former. As a rule, men had some superiority in physical strength and still more in moral coercion. Thus women were gradually excluded from the more gainful employments, and then the oversupply of their labour for other employments lowered their wages still more. Thus the custom grew up of considering women only capable of inferior employments, and also of considering the most gainful occupations as unfeminine. At present, although half the people in the world are females, there is still a prejudice against lady doctors; and though women are considerably engaged as litigants, they are practically never employed as lawyers.

In recent years, however, the great natural economic forces have been working in favour of women. The demand for domestic servants is increasing with the growth of wealth, and relatively to the increase in population the supply is diminishing. The growth of wealth of the great masses of the people also makes it less necessary for women to seek gainful employments — witness the large number of the unoccupied. The adoption of piece-work in many industries is also in favour of the equalisation of women with men. "If we exclude from the calculation persons employed in agriculture and domestic service (in which time-work is practically universal), we find that 39 per cent of the persons occupied are engaged in trades which are chiefly piece-work compared with 61 per cent in trades chiefly time-work. The corresponding percentages for males only are 33 (piece) and 67 (time), and for females 61 (piece) and 39 (time)."[1] It stands to reason that when women are paid by the piece, the fact of sex must become of less importance.[2]

The increase of education has also given new openings for women not only in teaching but in writing (both books and journalism), the contraction of prejudice has thrown open many public employments, and even the gates of the learned professions are being unclosed.

The question remains whether the gain of the women must be the loss of the men. Two cases are to be considered: in the first case there are certain employments where only a certain amount of work[3] is required, as in law and medicine. If as many women as men became qualified as lawyers and doctors, it is not at all likely that there would be a corresponding increase in disease or litigation. If fees remained the same, it is clear that some of

[1] Report on Standard Piece Rates (1900) (Cd-144).

[2] Mr. Schloss, in his *Methods of Industrial Remuneration*, p. 188, gives instances of relatively high wages being earned by women at piece-work, *e.g.*, 4*s.* per day at button-holing.

[3] In this case the "*lump of labour*" theory seems to hold good.

the men would suffer, and it is equally clear that it would be the third-rate men — the men on the margin. Thus the public would gain through the increase of efficiency. It is possible also that the fees would fall, in which case the public would gain still more and the marginal men suffer still more. It is doubtful if any fall in average fees would affect the highest classes of professional skill.

In the second case, however, the result of the work, to recall a venerable phrase, is embodied in vendible objects. If we apply the principle of the reciprocity of demand and supply, in general after equilibrium is restored the additional supply of saleable goods ought to create the additional demand for labour. There would no doubt in this case also be a certain amount of marginal substitution with a corresponding increase of efficiency and gain to the public as consumers. In certain cases the admission of women might lower the fighting or bargaining capacity of the group concerned; but the difficulty does not seem formidable even to the authors of *Industrial Democracy*, who make the standard rate and the common rule the foundation of industrial well-being.[1]

The increase in the economic independence of women would again strengthen their position in what to most of them seems the principal bargain in life, and again it may be said that only the third-rate men would suffer.

On the whole, in economic as in other departments of social life, the elevation of women has proved to be one of the chief factors and also one of the best signs of progress.

§ 14. *The Employment of Children.* If there are still doubts as regards the proper employment of women, there are fortunately no doubts as regards that of young children. Since 1891 the employment of children under ten in most gainful pursuits in the United Kingdom has been prohibited. The employment of children of less tender years has also been placed under stringent regulations, and in many cases prevented. Of children between ten

[1] *Cf.* Vol. II., pp. 506, 507.

and fifteen the grand total of the United Kingdom (1891) was 4,225,729, of whom only 817,912 were occupied. The "unoccupied" children — nearly three and a half millions of them — are for the most part being educated to a higher degree. The records of the employments of children in the first half of the nineteenth century reveal some of the worst of the lawful crimes of history.[1] They are so black that even the modern mania for contradicting the traditional has failed in this case to substitute the dull gray of compromise. "Cruelty to children: horrible, incredible, unparalleled even in the history of pagan slavery, and not exceptional such as in all social organisations must be expected as the occasional outbursts of corrupted nature; but general normal a matter of business and calculation. All of which can be duly seen in the sober pages of Parliamentary Reports, notably in the two celebrated Reports in 1842 and 1843 of the Children's Employment Commission that aroused the tardy horror of England and Europe."[2]

Even under present conditions it may be contended that regulation[3] has not yet reached its rational limits whether as regards age or the conditions of employment,[4] but the principle has been fully accepted by all parties. And it ought to be remembered that if the nineteenth century saw the climax of the evil, it was also the first century to apply the remedy. Up to that time the right to the labour of their children seemed a natural right of the parents. "At the lowest stage were the children who were paid six or seven francs a year, sometimes only two or three francs in the case of babies, who hardly earned their keep. Under the influence of *la misère* at the end of the fourteenth

[1] See *Effects of Machinery on Wages*, p. 46. Mrs. Browning's *Cry of the Children* is perhaps the most pathetic lyric ever written, and it was once the most true.

[2] C. S. Devas, *Political Economy* (2d edition), p. 533.

[3] On the evils that prevail in the unregulated industries see *Industrial Remuneration* by D. F. Schloss (1898), p. 211, and *Industrial Democracy*, pp. 721, 722.

[4] *Cf. Industrial Democracy*, Vol. II., p. 766.

and the beginning of the fifteenth centuries more and more were employed of these little beings whom toil lay hold on at incredibly early ages. In 1403, for example, a father hires out for nine years to a neighbouring farmer his little daughter aged four years."[1] The present sweating of children in domestic industries may in a sense be regarded as a mediæval survival.

§ 15. *The Higher Forms of Labour.* Space will not admit of the survey of the interesting topic of the development of the rent of ability. If, however, we refer to the mediæval records, we are struck by the comparatively small prices paid for the highest professional skill. Treasures of art which we regard as priceless were bought for sums that appear ridiculous. Even down to the end of the eighteenth century the greatest writers failed to earn a fair competence. The gains of Pope were considered fabulous; but if he received £5000 for his translation of the *Iliad*, George Eliot received £10,000 for *Romola*. One of the greatest portrait painters at the close of the eighteenth century, Raeburn, received for one of his pictures thirty guineas, and the price of the frame was seven guineas.

The incomes at present earned by successful lawyers, doctors, architects, writers, and professional men of all kinds are to a large extent rent of ability, and the highest of their incomes are relatively small compared with the earnings of the most successful men of business. The merchant princes of mediæval times were poor compared with their modern counterparts. In this case, however, the incomes after a certain point is reached can hardly be associated with ability — they depend rather on a complexity of causes that may be regarded as examples of what Cournot calls the principle of fortuity. The annual earnings of the most successful race horses are also higher than those of the most successful professional men.

§ 16. *Progress and Real Wages.* Another topic of great importance may be dismissed in a few words, for the suffi-

[1] Vicomte D'Avenel, *op. cit.*, Vol. III., p. 26.

cient reason that it has been treated with great fulness by a multitude of enquirers,[1] the progress, namely, of real wages. The works of Thorold Rogers and Vicomte D'Avenel[2] again offer abundant materials. It will be found that from this point of view progress has by no means been continuous, and the pecks of wheat have varied considerably. In making comparisons, however, of this kind, several precautions must be taken which are too often neglected. The whole trend of the argument in the preceding sections is to show that one of the principal characteristics of progress as regards wages is the increasing differentiation. Accordingly, nothing could be more erroneous than to take the villein of the mediæval period as typical of mediæval labour, and the agricultural labourer as typical of modern labour. To begin with, the villein with a normal virgate was himself well up in the social scale — beneath him were bordars, cottars, landless men, and slaves; and in modern industry the agricultural labourer as regards wages is very low down. Again, the constituent elements of real wages must be considered. The mediæval "bread" was of many kinds, and the workers did not get the best. What meat they got was either diseased (like the "braxy" still given to shepherds in Scotland) or intolerably salt. The houses were hovels, the light was firelight, the clothing was partly leather and partly the coarsest cloth, the drink was beer that would now be considered undrinkable. In a word, the "necessaries" of life were all of a totally inferior quality, the margin for luxuries was small, and the real command of luxuries was still less. The nearest resemblance to a mediæval village in external appearance is to be found at present in some of the most remote and congested districts of Ireland. There were no doubt compensations, but they were com-

[1] See essay by the present writer on the Reality of Industrial Progress in *Strikes and Social Problems*, p. 70.

[2] See *op. cit.*, Tome III., p. 173, for a brief summary of the history of wages in France from 1500 to 1897.

paratively small. The remarkable thing, however, about mediæval society is that when the greater part of the people were sunk in what our working-classes would call misery, there was such a wealth of thought and such an intensity of spiritual life as to give countenance to the ancient idea that the growth of material wealth checks the manifestation of higher thought and feelings.

One of the most popular works in the mediæval period was Boethius on the *Consolation of Philosophy*. Here is the essence in Chaucer's translation: "Is it thanne so, that ye men ne han no proper good y-set in you, for which ye moten seken outward your goodes in foreine and subgit things? So is thanne the condicioun of thinges torned up-so-down, that a man, that is a devyne beest by merite of his resoun, thinketh that himself nis neither faire ne noble but-yif it be through possessioun of ostelments [*i.e.* household goods] that ne han no sowles."[1]

All the eloquence of John Ruskin cannot describe with greater vigour the "devyne beest" bowing down to "ostelments that ne han no sowles."

§ 17. *J. S. Mill's Forecast of the Probable Future of the Labouring Classes.* J. S. Mill's celebrated chapter on the Probable Future of the Labouring Classes is now only of interest as a striking example of the dangers of prophecy in economics. "There can be little doubt," wrote Mill, "that the status of hired labourers will gradually tend to confine itself to the description of work-people whose low moral qualities render them unfit for anything more independent, and that relations of masters and work-people will be gradually superseded by partnership in one of two forms; in some cases association of the labourer with the capitalist; in others, and perhaps finally in all, association of labourers amongst themselves."[2]

In brief, profit sharing and productive coöperation were to displace the system of *entrepreneur* and hired labour.

[1] Skeat's *Chaucer*, Vol. II., p. 39.

[2] *Principles of Political Economy*, Bk. IV., Ch. VII., § 4.

Let the facts suffice for commentary on the theory. On the 30th of June, 1899, there were throughout the *British Empire*[1] eighty-five businesses in which profit sharing was known to exist, and the number of persons employed in them was 51,829. At the end of 1899 there were in the *United Kingdom* 1,802,518 members of trade unions,[2] an increase in eight years of about 300,000, such increase being sixfold the total number of profit sharers in the Empire.

The figures for coöperative production[3] are still more striking. In the United Kingdom in 1898 there were 865 of such societies with a total membership of 30,104. The value of the goods produced was £10,200,598. For the same year the total number of persons employed[4] in factories and workshops in the United Kingdom was 3,807,024, and the aggregate value of the *foreign* trade only was £764,392,571.

In conclusion I may perhaps be allowed to quote from my essay on Profit Sharing written in 1890.[5]

"Compared with the great mass of industry conducted on the ordinary system of payment by wages, the amount of profit sharing is practically infinitesimal. . . . The greatest industrial success achieved by labour in this century, judged by the ordinary standards of numbers, funds, results, is undoubtedly trade unionism. . . . Trade unionism has, in fact, been so successful that it has now reached the point of development at which the danger to be feared on the analogy of corresponding forms in industrial history is the danger of excessive power."

The most important result, however, of the application of the historical method is that general estimates of the future are extremely hazardous. Even as regards the

[1] *Abstract of Labour Returns for 1900*, p. 104.
[2] *Report on Trade Unions for 1899*, p. xiii.
[3] *Abstract of Labour Returns for 1900*, p. 31.
[4] *Ibid.*, p. 188.
[5] Republished in *Strikes and Social Problems*, p. 45.

much easier problem of the interpretation of the past, there are still great differences of opinion. The following passage from Vicomte D'Avenel is so much opposed to present popular views as to demand careful consideration: "We have seen that this poor law of supply and demand against which the civil and religious powers are so prejudiced, and which both expect to overcome by decrees and homilies, has governed *en souverain* from 1200 to the present day the rate of wages of the day labourer (*journalier*), of all those pairs of arms that the English call unskilled, that is, without any special capacity or knowledge. But, it may be objected, that these were easy-going kinds of labour who did not know how to resist the current of things, and formed no associations nor brotherhoods (*confrèries*). Well, it results from the figures collected by us that these corporations, more or less closed, with all the assembly of rules and privileges with which they had been invested, *have exercised no influence on the price of labour* neither in feudal times nor in later centuries. The skilled workers (*ouvriers de métier*) have in vain grouped and fixed themselves in their companies (*jurandes*), they have undergone the same vicissitudes as the malleable poor men, isolated and disarmed before the movements of a rise and fall of wages, which were due to the scarcity or abundance of pairs of arms."[1]

The argument here refers to the determination of *relative* wages, but the writer also maintains that the aggregate effect of the corporations was injurious to the working-classes, because on the whole they decreased the efficiency and productive power of labour.

[1] *Op. cit.*, Vol. III., p. 109.

BOOK V.

THE ECONOMIC FUNCTIONS OF GOVERNMENT.

CHAPTER I.

ECONOMIC IDEALS.

§ 1. *Economic and Other Functions of Government distinguished.* When we take a broad survey of the past and present social conditions of various nations, we discover immediately that the functions of government are so varied and complex as to elude any simple classification. We cannot even draw a sharp distinction between the necessary and the optional functions; the necessaries of governments are as variable as the necessaries of individuals. Take, for example, the duty which is generally placed first — the protection, namely, of the State against foreign enemies. We may indeed say that logically the very existence of a sovereign State involves political independence, but in saying so we are only beginning the definition or analysis of sovereignty. History is full of examples of the sacrifice of political independence to other political objects, and States have submitted under varying degrees of persuasion or compulsion to foreign enemies. And even taking existing conditions, who can lay down any practical rule by which governments may decide how much of their resources are to be devoted to defence? Are the immense armies and armaments of the nations of Europe "necessaries"? Or at what point does the necessity of defence pass into the luxury of attack or the extravagance of display? How much of the expenditure on preparations for war is necessary and how much optional? This is the question in the concrete which the Czar invited all the wisdom of the nations to answer, and no answer was forthcoming.

The provision of internal security — the protection of the

liberty and property of its subjects — may also be regarded as a primary function of government, but again there is a wide debatable land between the necessary and the optional. Consider personal liberty — Is the State to protect the liberty of the individual against moral as well as physical coercion? What exactly constitutes moral coercion? Is the State to aim at perfect toleration in religion and in the expression of opinion? The Roman Empire tolerated every kind of religion except primitive Christianity; the British Empire tolerates every kind of religion, except the sensualism and cruelties of paganism. The exceptions in each case depend on the political and moral ideas of the time. The Romans looked on Christianity as anarchist; we consider paganism indecent and inhuman.

Consider the protection of property — even the definition of property is subject to endless variations, and the degree of protection considered requisite is still more variable. We have already seen that immaterial wealth — even in terms of money — is often of more value than material wealth. A new idea may produce more wealth than all the mines of Klondike — but property in creative ideas is generally either unrecognised or unattainable in spite of copyrights and patents. In the modern State the security of property rests on the security of contract, but every State actually restrains freedom of contract, and refuses its sanction to agreements in different cases on various grounds. It is vain to say that the enforcement of contracts is a necessary function of the State when the positive laws relating to contracts reveal such wide discrepancies as regards enforcement.

In the same way through the whole range of governmental functions the line of demarcation between the necessary and the optional is equally variable and uncertain.

And further the determination of what are "necessary" functions and what the best modes of fulfilment, having regard to the circumstances of different times and places, does not depend on economic considerations alone. To

take a particular case, the hire of soldiers is one thing, their discipline another; and, more generally, the provision of various public works and institutions, the administration of justice, the extension of education, however necessary they may be deemed, are not therefore placed exclusively within the economist's sphere of influence; the quantity and quality, for example, of the justice or education provided by the State will depend only partly on the market price of the services required or the money value of the services rendered.

And when we pass to the optional functions of government, the statesman may appeal still less to the economist. The government of every State is actually dominated by a complex growth of ideas, and the widest interpretation of the term "economic" will not embrace the whole of them, even in the most advanced community.[1] How much of the actual positive law of England can be deduced from economic principles, and how much of its international policy is determined by purely economic considerations? The positive laws of England and the present policy of England still bear the impress of ancient religions and remote ideals of justice, and the impress also of the beginnings of new moral conceptions. It is a matter of history that, in the development of the English people, ideals of justice and of religion have exercised great influence, just as also have commercial, mercantile, and economic customs and theories. And it is not necessary to attempt an accurate and adequate presentment of these different influences before admitting their reality. The

[1] *Cf.* Dr. Bonar's "Old Lights and New in Economic Study," *Economic Journal*, December, 1898 — an excellent criticism of the ultra-economic interpretation of history. "Marx and Loria allow that the automatic establishment of better conditions of life is slow and irregular. They say that the laws of all civilised countries are obsolete and yet persist in being. Surely, then, we might argue that there is a strong force acting against these economic causes" (p. 446). "Wealth is rather the controlled than the controlling element in a healthy national polity" (p. 451). See also above, Book IV., Ch. II., § 1.

real is not limited by our powers of expression or comprehension. Many changes in our civilisation have been effected by an appeal to justice and many by an appeal to Christianity. It is true that the ideas of justice and of Christianity — considered as political forces — have varied from generation to generation just as at the present day they vary from nation to nation and from class to class; but it would be absurd to deny the reality of these forces on the cheap pretence that the words do not always convey to all minds precisely the same meaning.

And in the same way economic principles play their part in moulding laws and policy, although from generation to generation and from place to place they vary in form and substance.

On the view taken in this treatise the production, distribution, and exchange of wealth — the three great departments of economic investigation — depend upon a great variety of factors, and every one of these factors is more or less subject to modification by the general and special influence of government. To attempt to summarise under one heading or to bring under one principle these various modes of action seems a false procedure if we are dealing with positive facts, and illusory if we are setting up an ideal. A brief examination of the opposing principles of what may be termed "minimum interference" and "maximum utility" will, I think, justify the position here laid down.

§ 2. *The Principle of Natural Liberty, Laisser-Faire, or "Minimum Interference."* The popular blunders regarding the system of natural liberty are as numerous as the crimes committed in its name. No account of the system ought to pass over Adam Smith, and yet the broadest survey of Adam Smith is sufficient to prove that he did not set up the system of minimum interference even as an economic ideal, and still less as the most general political ideal.[1]

[1] The following quotation from the Preface to the last revised edition (1790) of the *Theory of Moral Sentiments* (first published 1759), shows

At the very outset of his preliminary presentment[1] of the "obvious and simple system of natural liberty" he introduces a most important qualifying clause. Every man is, indeed, on this system left perfectly free to pursue his own interest in his own way, but — mark the qualification — only "as long as he does not violate the laws of justice." Thus the freedom of competition of the industry and capital of individuals is always subject to the limitations of these avowedly higher laws of natural justice. And again, according to the system of natural liberty, the sovereign has — it is true — *only* three duties to attend to, but they are duties of the greatest importance, viz., protection against other States, the protection of every member of the society from the injustice or oppression of every other member of it, and, finally, the duty of erecting and maintaining certain public works and institutions which it can never be the interest of any individual or small number of individuals to erect and maintain. Thus, according to the actual teaching of Adam Smith, if competition leads to injustice or oppression, the State ought to intervene, and if

the breadth of view of Adam Smith, and that the *Wealth of Nations* was not designed simply to advocate *laisser-faire*.

"In the last paragraph of the First Edition of the present work I said that I should, in another discourse, endeavour to give an account of the *general principles* of law and government, and of the different revolutions which they had undergone in the different ages and periods of society, not only in what concerns justice, but in what concerns police, revenue, and arms, and *whatever else is the object of law*. In the *Enquiry concerning the Nature and Causes of the Wealth of Nations* I have partly executed this promise at least so far as concerns police, revenue, and arms. What remains, the theory of jurisprudence, I have hitherto been hindered from executing by the same occupations which have till now prevented me from revising the present work. Though my very advanced age leaves me very little expectation of ever being able to execute this great work to my own satisfaction, yet as I have not altogether abandoned the design, and as I wish still to continue under the obligation of doing what I can, I have allowed this paragraph to remain as it was published more than thirty years ago, when I entertained no doubt of being able to execute everything which it announced." He died the same year.

[1] *Wealth of Nations*, Book IV., Ch. IX.

self-interest is inadequate to provide various institutions for the satisfaction of social needs, the State ought to provide for their erection and maintenance. It would be impossible to state more precisely the general position that the State may be called on to interfere—on various grounds —with the liberty of individuals in the production and distribution of wealth; and it would be easy to show by particular references that Adam Smith was himself prepared to advocate such interference in many cases, and that in the natural course of progress this list of cases for interference has been largely extended. Professor Sidgwick is only putting Adam Smith's argument in modern form when he shows that even in a society composed solely of "economic men" the system of natural liberty in certain respects and under certain conditions would have no tendency to realise the beneficent results claimed for it. And when we consider in how many ways human nature differs from this hypothetical economic abstraction,[1] and further take into account the various causes of friction in production and distribution, and the imperfections generally of the mechanism of exchange, the *prima facie* case for governmental interference, or rather deliberation, is still further strengthened. Thus all that seems to be left of the system of natural liberty, considered as the most general rule of political action, is simply the presumption that the burden of proof lies on those who advocate State interference or control. We are not entitled to say that minimum interference is an ideal, and that every restriction abolished is a step nearer this ideal.

And even this presumption in favour of natural liberty may be theoretically attenuated into the barren statement that the State ought not to interfere except in case of need, and then we have only to show that the cases of need are in the majority to turn the presumption in favour of interference and to arrive logically at some form of socialism.

[1] *Cf.* Pantaleoni, *Pure Economics, passim.*

On Adam Smith's view, however, such an inversion of natural liberty was impossible on two general grounds, one positive, the other negative. In the first place, he maintained that in general natural justice was promoted by natural liberty, and the successors of Adam Smith only differ from him in the breadth of the meaning to be given to these doubtful expressions.[1] They believe, with him, that the cases of need for interference, according to the ideas of justice prevailing alike in the practice and in the philosophy of modern States, are exceptional, and that the positive law of the most advanced communities rarely (*i.e.*, in comparison) interferes except to punish the violation of good faith. And, as Sir Henry Maine well observed, the very character of modern frauds — which at first from their novelty seem proof of retrogression — shows clearly that the moral obligations, of which they are the breach, must have been more than proportionately developed. It is the confidence reposed and deserved by the many which affords facilities for the bad faith of the few.[2]

And secondly, Adam Smith showed by a wide historical survey that even the theoretically beneficial action of governments is subject to practical limitations imposed by want of wisdom or want of power or want of money, and the history recorded since Adam Smith's time affords abundant illustration of these three great wants.

The examination, however, more in detail of the benefits and failures of freedom on the one hand, and on the other of the limitations on the remedial and supplementary actions of governments, will be taken up in the following chapters.

I propose now to consider how far the system of maximum utility can be held to be the foundation of all the *media axiomata* of economic action, or to constitute the ideal of economic conduct.

[1] *Cf.* Bosanquet's *Philosophical Theory of the State*, Chap. VI.

[2] *Ancient Law*, p. 307.

§ 3. *The Principle of Maximum Utility.* The system of maximum utility must be stated in the first place so as to bring out its essential characteristics, and for the present the very important practical qualifications with which it is presented by its ablest exponent[1] may be omitted. The economic principle is a deduction from, or a part of, the general system of utilitarianism. On this view the art of political economy has for its object, briefly stated, the attainment of the maximum utility of which the society is capable by means of wealth. Accordingly, the government may advantageously interfere with the freedom of individuals in production if it can thereby increase the aggregate of wealth or make the proportion of produce to population a maximum, and it may interfere with their freedom in distribution if thereby the apportionment of wealth secures on the whole a greater amount of utility to the members of the society.

If we were entitled to assume that all injustice involves disutility, and that perfect justice is that which secures maximum utility, the difference between this system and that of natural liberty would appear to be only formal, for the practical object of the system of natural liberty is also to secure justice, partly by allowing freedom and partly by recourse to law and government.

And especially as regards the erection and maintenance of public works and institutions, it may be thought that the only test of justice or advantage is the consequent utility compared with the expense (or other disutility) directly or indirectly involved. But when we pass from indefinite generalities to particular applications, this identification of the two systems cannot be accepted. The *prima facie* ground, says Professor Sidgwick,[2] on which the interference of government with the distribution of produce that results from the individualistic organisation of industry appears economically desirable is the great and

[1] *Cf.* Sidgwick's *Principles of Political Economy*, Book III.

[2] *Op. cit.*, p. 518.

ever increasing inequalities in income to which this organisation leads. The common sense of mankind, he asserts, holds these inequalities to be objectionable; implicitly adopting, as he conceives, a certain view of the relation of wealth to happiness which is stated explicitly in two propositions laid down by Bentham. Before requoting these two propositions we may pause at the assertion regarding inequalities. In the first place, it is extremely doubtful, as a matter of fact, whether the individualistic organisation can be said to lead to ever increasing inequalities in income.[1] How are the inequalities to be measured? Are we to take an average of all incomes, and to say that the two extremes of poverty and affluence in certain cases go farther and farther away, that the rich become richer and the poor poorer? Or are we to suppose that the submerged tenth are lower beneath the surface, and the upraised millionth, like active volcanoes, make their displays at a greater height? Still it may happen that the nine-tenths, the mass of the people, are grouped nearer the average, — the sea level of the favourite economic metaphor.

Even, however, if it is granted that individualism causes a considerable and an increasing inequality in the incomes of members of the society, it is not so easy to assent to the assertion that the common sense of mankind holds such inequalities to be objectionable.[2] The

[1] *Cf.* Leroy-Beaulieu, *Repartition des Richesses*, and Pareto, *Cours d'Économie politique*, Vol. II., Bk. III., Ch. III., p. 318.

[2] *Cf.* Bentham's "Essay on the Levelling System," *Works*, Vol. I., p. 361.

"The love, the passion, for equality has its root, not in virtue, but in vice, not in benevolence, but in malevolence. . . . The passion for equality has no root in the benevolent affections; its root is either simply in the selfish affections or in the selfish combined with the malevolent. . . . The lover of equality in its most refined form is the man to whose eyes the spectacle of another's prosperity is intolerable. What, then, is this so much boasted passion for equality? It is a propensity which begins in vice and leads to ruin. In the scale of merit it is as much below selfishness as selfishness is below the virtue of benevolence."

"common sense of mankind" is a very respectable but very empty expression; it is of the tribe of innate ideas which John Locke killed and buried. If for the vague appeal to the common sense of mankind we substitute the opinion of twelve, or twelve thousand, ordinary men taken at random, their opinion would, in all probability, not be favourable to equality of income as an ideal, and certainly not favourable to putting their own incomes into hotchpot and dividing the aggregate. Equality before the law, for example, as regards the enjoyment of personal liberty or the punishment of crimes, has obtained recognition with difficulty in the most advanced nations; but even the most enthusiastic Christians and philosophers rarely aim at the actual furtherance of equality of incomes, and still less is equalisation of incomes an active principle in any modern State.

We may now examine the two propositions of Bentham on which the alleged objection of the common sense of mankind to inequality of incomes is supposed to rest. These propositions are (1) that an increase of wealth is, speaking broadly and generally, productive of an increase of happiness to its possessor; and (2) that the resulting increase of happiness is not simply proportional to the increase of wealth, but stands in a continually decreasing ratio to it.

The first of these propositions may easily be reduced to a truism by those who identify utility with happiness. The essential characteristic of all wealth is to possess utility, and the meaning of utility is the capacity to satisfy desire, and if the satisfaction of desire constitutes happiness, the increase of wealth means an increase of happiness.

It may, at any rate, be admitted that most people practically act as if they regarded the acquisition of wealth as affording an increase of happiness and the loss of it as a source of pain.

The second proposition is simply a statement of the law of diminishing utility which has already been so fully

illustrated; a shilling to the man that is fasting would mean more happiness than to the man that is full.

The conclusion that is drawn from these innocent propositions is said to be obvious. "From the two propositions taken together the obvious conclusion is, that the more any society approximates to equality in the distribution of wealth amongst its members, the greater, on the whole, is the aggregate of satisfaction which the society in question derives from the wealth that it possesses."[1]

If the wealth of the society were equally distributed amongst the members, and if they were all assumed equally capable of deriving satisfaction from it, this equal distribution amongst those equally sensitive and equally sensible people might make the utility of the wealth a maximum. But between this ideal and the real there is a great gulf fixed. And until human nature has become so reasonable, that every one looks on himself as a unit like other units, and regards the happiness of any two as greater than that of any one, even if that one is himself, the voluntary adoption of equality of distribution is impossible.

It may, however, be replied that a democratic government is not a personal tyrant, but the embodiment of the will of the people, and it ought to use its power to correct the inequalities that spring from the selfishness of individuals, and that the State at any rate ought to look to the maximum happiness of the whole society. And this indeed is the reply of those who advocate communism or socialism. But this simple solution fails even on utilitarian grounds. If the food and other produce to be distributed fell like manna from heaven, equality or inequality of distribution would not affect the supply of the food or of the mouths to eat it. It is not so, however, with economic utilities. Economic utilities are in general the result of labour and sacrifice, and in their case equality of distribution would, as Professor Sidgwick shows, at the same time diminish the dividend and increase the divisor,

[1] *Op. cit.*, p. 519.

and in the end the diminished quotient might give less than the aggregate happiness ensured by the present system.

Reflection, he says, shows that the inference drawn from the two Benthamite propositions is only legitimate under certain conditions, viz., "that the total amount of produce to be divided, and the number of persons among whom it is to be divided, remains unaffected by the change in distribution." And a further qualification is added to the effect that the change has no tendency to diminish the happiness of the community so far as it is derived from other sources than the increase of wealth, such, for example, as "culture," and the virtues which are fostered by the strivings of individuals under unequal conditions.

In conclusion the opinion may be hazarded that no system of ethical philosophy ever propounded lends itself so readily to casuistry as utilitarianism. All the virtues can be caught in its net, so large is its sweep, and every one of them can escape again, so wide are its meshes. Every virtue, on the whole, promotes happiness; but there are exceptions to every virtue, which if reasonably calculated according to the Hedonistic calculus, will give a little more happiness. Thus truth produces happiness, but truth properly economised produces a little more happiness, and in these days of marginal increments the little more is often the decisive consideration.[1]

[1] The casuistry of utilitarianism may be illustrated indefinitely from the works of Bentham. Take, for example, his treatment of Marriage and Divorce, *Works*, Vol. I., p. 349 *sq.*

"The reign of liberty produces less wandering fancies than that of conjugal captivity. Render marriages dissoluble, there will be more apparent, but there will be fewer real, separations."

"To believe in the perfection of the beloved object, to believe in the eternity of the passion which is felt, and which is inspired, such are the illusions which may be produced to two children in the blindness of love. But aged lawyers, legislators, whose heads are whitened by years, ought not to give place to this chimera."

"Upon whom shall the choice of a husband or a wife depend? The laws ought never to intrust the power to the parents. The manner in which parents see and feel is not the same. Love is the moving principle of youth; the old scarcely feel it."

§ 4. *The Christian Principle in Relation to Liberty and Utility.* At different times the economic principles just examined have been controlled or set aside by moral or religious ideas. To take one most important and interesting case, throughout the Middle Ages there was a continuous endeavour to make economic activities conform to, or rather make way for, the great ideas of Christianity. The pure and austere idea of the Franciscans forms a striking contrast with the economic principles which prevail at the present time. Material luxuries were scorned; sloth was a sin, and labour a duty — not for the material results, but for the spiritual discipline; property was limited to the passing use of necessaries; humility and renunciation occupied the place of self-interest. Between the pure theory of Christianity as thus conceived, and individualism, a reconciliation seems possible if self-realisation is found in the voluntary imitation of Christ "whose service is perfect freedom";[1] but no reconciliation seems possible with a system which asserts that increase of wealth involves increase of happiness, unless a wider interpretation is given both to Christianity and to wealth. Such an interpretation is suggested in the last chapter of the present book; it can, however, lay no claim to general acceptance and the more austere view still prevails to a large extent. In our own times we find socialism strongly condemned by the Catholic Church on the very grounds on which it is ap-

The table of alliances to be prohibited with the inconveniences noted is full of curiosities. We find, for example, marriage with the mother-in-law forbidden, the only reason given being Inconvenience (I). On reference this proves to be "*Evil of Rivalry.* Danger resulting from a real or suspected rivalry between a bridegroom and certain persons of the number of his relations or connexions."

[1] *Cf.* Thomas à Kempis: "An eternal man prefers the care of himself before all other cares. Where art thou when thou art not present to thyself? Or when thou hast risen over all things, what profit will it be to thee if thou hast neglected thyself? If thou desirest to have peace and true vision, thou must set all the rest aside and turn thy eyes upon thyself alone. Thou wilt then note great progress if thou keep thyself free from all temporal care." — *Imitation of Christ*, Book II., Ch. V.

proved by the system of utility; in the words of Leo XIII. in his Encyclical against the socialists: "The desire of present good is the root of all evil, and the Church acknowledges that the inequality amongst men which is seen in the natural distribution of mental and bodily gifts exists also in the possession of property, and she enjoins the inviolability of the right of property and ownership."[1]

[1] For the modern treatment of economics from the Christian (Catholic) standpoint, see *Political Economy*, by C. S. Devas — one of the manuals of Catholic Philosophy (Stonyhurst Series). This work is interesting, both by way of contrast and supplement to that of the orthodox English school. Throughout, two principles are held fast: (1) "The family is the prerequisite of production, the ordinary unit of enjoyment, the foundation of national welfare and greatness, the principal source, in the natural order, both of virtues and happiness" (p. 100).

(2) "In every State the lawful authority, called the Government, or Civil Power, has, like parental authority, all its rights from God" (p. 476).

The motto of the book is: "Finis autem ultimus œconomicæ est totum bene vivere secundum domesticam conversationem."

The relations of Christian doctrines to economics, both from the historical and the practical side, have been admirably treated by Dr. W. Cunningham: see especially "*Use and Abuse of Money*"; "*Usury*"; "*Economics and Politics*"; "*Modern Civilisation in its Economic Aspects.*" Compare the last chapter in the present book.

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CHAPTER II.

BENEFITS OF INDIVIDUALISM.

§ 1. *Relation of Present Subject to General Argument.* As is shown in the last chapter, there is no simple test of advantage and disadvantage, or benefit and injury, by which it can be decided whether individual freedom or State control is preferable. It is difficult to strike the balance in any particular case of profit and loss, and the indirect and obscure effects of interference (or non-interference) are often of more consequence than those which are direct and obvious.

At the same time, however, the government of any civilised State would be rendered impossible if the only recognised rule of action were that every case must be decided on its own merits. On the contrary, every case ought to be regarded as a possible precedent for all cases essentially similar, whether in the direction of further freedom or closer restraint. The idea that particular abuses can be remedied or particular advantages conferred by the State, without reference to general principles, simply involves the substitution of the prejudices and impressions of the moment for the deliberate recognition of general principles of public policy. And it does not follow that because all these principles cannot be deduced from one great first principle — whether liberty, utility, or religion — they are therefore to be held of no account. Even in the physical sciences such a comprehensive generalisation of particular inductions has hitherto proved impossible. The ultimate laws of matter and motion may perhaps not be even intelligible to human reason, but this recognition of final ignorance throws no doubt on the

predictions or records of astronomy or geology. And in the same way, although the final principles of government are still a matter of dispute, and although it is possible that the human race may be under the sway of ultimate principles that are not even intelligible to the particular reason (according to the fundamental assumption of many systems of theology and philosophy),[1] there are *media axiomata* of government, as of physics, and there are empirical laws in politics and economics as well founded as the empirical laws of the physical sciences.

In the present chapter I propose to examine only the advantages and benefits of individualism. Although incidentally, for the light of contrast, occasional references may be made to the opposite, for the purpose of scientific analysis it is found convenient to defer the consideration of the evils and disadvantages to the next chapter. The treatment of the evils of non-interference will then naturally lead up to the consideration of the benefits and methods, the limitations and the disadvantages, of governmental action. Finally, since all government in general involves "expense," and expense involves revenue, it will be necessary to examine the principles of Public Finance, including Taxation and Expenditure.

In considering the benefits of individualism, I shall take in order the leading principles of Consumption, Production (including Exchange), and Distribution.

§ 2. *Benefits of Freedom as regards Consumption and Demand.* Consumption is the final cause of production, and the wants of consumers are indicated by demand. Men and women, as well as children, may demand what they like or what they are told by their superiors they ought to like.

In considering the benefits of leaving their choice unfettered we may, first of all, refer back to the general principles of utility or the satisfaction of wants. Both as regards their material wants and as regards the means of satisfac-

[1] Compare the Introduction to Book I. § 4.

tion, people are confronted with endless varieties of choice; and, on the whole, in modern industrial societies, it is now recognised that consumers are the best judges of what they require and of the things that will satisfy their requirements. It must always be remembered that all incomes are limited, and that the vast majority relatively to the large choice of expenditure are extremely narrow. The poorest may spend the whole of their incomes upon "necessaries," but even as regards necessaries there is relatively a considerable choice. In any case, however, the limitation of incomes means that expenditure in one direction leaves less to spend in others. Thus, if people find a certain mode of expenditure unsatisfactory, they will try something else, and the final results of these experiments will be the maximum satisfaction under the circumstances. The consumers may, of course, make mistakes.[1] They may choose pleasures that do not answer to Bentham's, or even to less exacting, requirements, and they may fail to realise the pleasures which they choose. But the general rule of individualism is to allow freedom of choice to the consumer of all forms of material wealth, and the general result is held to be beneficial to society at large. Give two boys a shilling each to spend, more happiness will ensue if each chooses for himself and not each for the other. That is the germ of *laisser-faire* in consumption.

The presumption in favour of this rule is supported by an appeal to history.[2] In progressive societies the emancipation of the consumer of material wealth had been effected whilst the producers and traders were still in fetters; and the freedom of production and of trade was largely consequent on the extension of freedom of consumption and demand.

History also shows on the reverse side that when castes, customs, and laws succeed in imposing uniformity and rigidity on the choice of consumers, they succeed also in checking material progress. It has long been recognised

[1] See next chapter. [2] See above, Book IV.

that the first step toward the civilisation of undeveloped nations is the creation of new wants and desires; the substitution of an effective freedom of choice for a blind adherence to habit or custom. There is the less need to labour the argument, as this part of individualism seems to be generally approved (*exceptis excipiendis*) by economists who in other respects advocate some form of socialism or collectivism, at any rate as a regulative idea. The authors of *Industrial Democracy*, for example, state explicitly, "To obtain for the community the maximum satisfaction it is essential that the needs and desires of consumers should be the main factor in determining the commodities and services to be produced."[1] And again, in defending their Common Rule (the new name for the minimum standard of comfort), they say: "It would in no way prevent competition between trades or lessen its intensity. The consumer would be free to select whatever produce he preferred, whether it was made by men or women, by hand or by machinery, by his own countrymen or by foreigners." Even pronounced state socialists would apparently leave the demand of consumers free as the general rule, the business of government being to guide production according to the statistics of consumption.[2]

The ready acceptance of the rule of freedom of material consumption at the present time is partly due to the recognition of the fact that, with a few comparatively unimportant exceptions, no government can enforce sumptuary laws, and partly to the wide acceptance of the theory of evolution in so far as it asserts the tendency to variation to be a necessary condition of progress.

Similar reasoning applies in the case of immaterial wealth, though here in most cases the recognition of freedom has been much more tardy and in most countries is less complete. Still, in modern industrial societies the general rule is, as regards education, religion, and amuse-

[1] Sidney and Beatrice Webb, Vol. II., p. 818.

[2] *Cf.* Schäffle, *Quintessence of Socialism* (translation), p. 42.

ments, that those who are supposed to have the capacity are allowed freedom of choice. In Britain a certain amount of elementary education is compulsory upon children, but the principal argument in support of the compulsion rests, as in similar regulations restricting the freedom of consumers, upon their incapacity or that of their parents to make a reasonable choice. With this exception the people of this country are free to remain as ignorant as they please, even of the elements of religion. In the United Kingdom, although the State provides or assists in providing schools, the children or their parents are free to obtain the necessary education elsewhere; and beyond laying down the official requirements as regards attendance, standards, and age, the State makes no further interference. The principal practical difficulty at present is with reference to the pecuniary aid to be afforded to voluntary schools.

The State still, however, interferes directly or indirectly as regards the education of the professional classes. The candidates, for example, for the medical profession are not allowed to demand the quantity and quality of education which they (or their natural advisers) think best. If a man wishes to practise as a doctor, he must obtain a qualification, and this qualification involves a specified kind of education. The theoretical justification for medical licenses is again the assumption that the consumer is not fitted to judge, and a legal qualification is a kind of guarantee of the goodness of the services. Adam Smith,[1] indeed, strongly advocated perfect freedom of trade in medicine and the abolition of licenses, but his opinion was no doubt coloured by the abuses of his time. It is certainly at present the reverse of the truth to say that "a degree can pretend to give security for nothing but the science of the graduate, and even for that it can give but a very slender security; . . . and that a degree always has

[1] See Letter to Dr. Cullen. Appendix to McCulloch's edition, note xxii., p. 583.

been and always must be a mere piece of quackery, in spite of all the regulations that can be made."

At the same time, however, it must be admitted that as regards the provision of medical science, there has been, as in other industries, a great extension of freedom of demand, and the demands of the consumers practically govern the production of prescriptions. On the whole, the public judges by practical success, and the competition of medical schools is so severe that the teachers must provide the kind of education that leads to the most successful results or best satisfies the public demand.

The restraints upon entrance to the various branches of the legal profession, though originating in monopoly, are now defended in the interests of the public. The universities and law schools provide a general training and a preliminary professional training that tend to raise the standard of the profession, and the consumers of legal advice also have a kind of guarantee for its respectability. From the point of view of the public what is most required, next to the purity and efficiency of justice, is speedy administration. The law's delay is still proverbial; though, in this country, there is no question as to the purity or efficiency of the interpretation. One of the principal economic justifications of restraints on the legal profession is that certain forms and technical modes of procedure are necessary to save the time of the courts. Probably the greatest improvements in the administration of law in this country would be found in giving to a greater extent conscious effect to this principle.

As matters stand, the time of the courts is often distributed according to the amount of money there is to be spent on the case; and in this respect the consumers are not the best judges of their own interests, and still less of the interests of the public. In this case the freedom of a few limits the freedom of many.

On the whole, however, taking a broad survey, the administration of justice has followed the laws of general

industrial progress in being brought more and more under the influence of freedom of demand. And if the law does not satisfy the demand, people make tribunals and courts of arbitration of their own, — *municipia in municipio*. The great business of the law is to guarantee freedom, to enforce contracts, and to provide for the liberties of the subject and the security of property; and the law of progressive societies has been adapted to meet these requirements. The greatest security to the individual is afforded by the separation in the State of the judicial from the executive power. The general argument of Adam Smith may be pointed and modernised by reference to the Dreyfus case. "When the judicial is united to the executive power it is scarce possible that justice should not frequently be sacrificed to what is vulgarly called politics. The persons intrusted with the great interests of the State may, even without any corrupt views, sometimes imagine it necessary to sacrifice to those interests the rights of a private man. But upon the impartial administration of justice depends the liberty of every individual, the sense which he has of his own security. In order to make every individual feel himself perfectly secure in the possession of every right which belongs to him, it is not only necessary that the judicial should be separated from the executive power, but that it should be rendered as much as possible independent of that power." The demand for justice is also the demand for liberty.

Of all the branches of progress, however, in the provision of the forms of immaterial wealth, the progress in religious liberty is the most remarkable. In Britain itself the large toleration at present prevailing has only been obtained by a long series of constitutional struggles. The benefits of religious liberty can only be measured and realised by reference to history,[1] and realisation by history requires, unfortunately, not only the labour of reading, but a certain effort of imagination. We are apt to

[1] *Cf. passim*, the works of Hallam, Erskine May, Lecky.

consider religious persecution as simply barbarous, forgetful of the fact that some of the most glorious periods in our annals pushed intolerance to torture and death. The horrors perpetrated in the name of Christianity in this land of freedom are, by the very contrast, the most sickening of all the cruelties ever inflicted by man on man. Even in the reign of Queen Elizabeth and the lifetime of Shakespeare "Englishmen were liable to be burnt for what perhaps they did not understand to be heresy, till the ecclesiastical judge so interpreted the words of the canonical scripture."[1] Under such an interpretation of Scripture by the Bishop of Norwich of the day, five anabaptists were subjected to the writ *de heretico comburendo* and burnt accordingly.[2] The execution of some two hundred papists was justified by converting their religion into high treason, though not legally shown by any overt act. The record of the burnings of heretics, however, Catholic and Protestant, seems to us — through frequent repetition — stale and unprofitable; a less notorious instance of intolerance is afforded by the treatment of the Book of Common Prayer. In the reign of Elizabeth "any person whatever who in plays, songs, or other open words speaks anything in derogation of the said book," was liable to heavy fines for two offences, and for the third to imprisonment for life. During the Commonwealth, in the lifetime of Milton, when Puritanism had its day of power in England, any person who used the Book of Common Prayer, not only in a place of public worship, but even in any private family, was liable on the third offence to a year's imprisonment.[3]

It may be interesting to non-churchgoing people to be reminded that the statutes imposing penalties on the "total irreligion" thereby displayed were only repealed

[1] Blackstone, Book IV., Ch. 4. The whole of this chapter gives an excellent historical account of the offences against God and religion.

[2] Hallam, *Constitutional History*, Vol. II., p. 20 (note).

[3] Ordinance of August, 1654.

in the reign of Victoria.[1] In the time of Elizabeth non-attendance at church was for an occasional Sunday very cheap, being only one shilling to be given to the poor; a month, however, of such relaxation involved a fine of £20 to the crown. It may be said that statutes of this kind had long become obsolete, and that the abolition was only formal. But many statutes involving very serious disabilities were enforced during the reign of Victoria against those who did not conform to the Church of England. It was not till 1871 that the offices and degrees of the English universities were opened without theological restriction.[2]

It is worth noting that England has been much behind some other nations in the full concession of political rights to non-conformists.[3] The United States led the way by declaring in one of the articles of the Constitution that "no religious test shall ever be required as a qualification to any office or public trust under the United States." The tardiness of England is partly explained by the large comprehensiveness of the Established Church on matters of doctrine, and partly by its great political influence.

It may perhaps be thought that the economic conception of freedom of demand is as much out of place in the spiritual heaven of theologians as in the material heaven of astronomers, — that we might as well speak of a demand for comets or small planets as of a demand for religious creeds and confessions. There is, however, undoubtedly an economic side to all religion, as Adam Smith showed in one of the most vigorous chapters of the *Wealth of Nations*[4] and as is shown by every religious persuasion at the present time from the Salvation Army up to the highest developments — the particularisation of which would be invidious. A demand for any kind of religious services

[1] 1844 and 1846.

[2] In 1869 Henry Sidgwick resigned his Fellowship in Trinity College, Cambridge, as a protest against the religious tests then in force.

[3] Lecky, *Democracy and Liberty*, Vol. I., p. 427.

[4] Book V., Ch. I., Pt. 3. See above Book I., Ch. II., § 3, p. 42.

must be an effectual demand, or the supply will not be forthcoming. It is no doubt true that in the past great religious orders have been instituted under vows of poverty, and the founders, and those who imitated their example in their lives and conduct, were guided by spiritual and not by economic considerations. But as these orders decayed in spiritual austerity they grew in economic power, and as they relaxed their rules they extended their wealth. The Church established a gigantic religious monopoly on an economic basis. This monopoly of religion by the Roman Catholic Church, like other great mediæval monopolies of trade and feudalism, broke down because it ceased to consider the interests of the great body of consumers.[1]

Just as a monopoly of religion is apt to engender intol-

[1] I am much indebted for the following critical note to Mr. C. S. Devas: "It seems to me that Adam Smith, in the passages you refer to, appears not as the shrewd observer of his own times but as eighteenth-century philosopher with no means of understanding the Middle Ages — no more than Hume or Voltaire. His notion that the clergy had an absolute command over the great body of the people is never true of any time or place, certainly not true of the days of the Emperor Frederic II. and of the prevalence of Arabian philosophy before St. Thomas Aquinas; not true of the anti-clerical time of Philip the Fair, nor again of Italy and Germany in the fifteenth century. Then, as regards the riches of the Church breeding corruption, there was no doubt a constant danger of it; especially of the higher posts of abbot or bishop being occupied by royal favourites or younger sons of the nobility without regard to spiritual fitness. How far this actually happened needs for each period and country an examination of the contemporary evidence; and to make any general proposition seem very hazardous. I am not denying that there *may* have been great misapplication of Church property by the clergy; but at any rate as regards England in the fifteenth and sixteenth centuries the detailed evidence collected by Dr. Jessop (Protestant) and Dr. Gasquet (Catholic) shows Adam Smith's view of the inferior ranks of the people being disgusted by the vanity, etc., of the richer clergy to be a complete misrepresentation. The destruction of the monasteries and the confiscation of ecclesiastical property was most unpopular with the poorer classes, who (apart from any spiritual loss or gain) suffered appallingly in their fortunes by the change — a change that Jessop calls the Spoliation or the Great Pillage."

erance of opinion and laxity of morals, so free trade in religion on Adam Smith's view tends to promote toleration and variety in doctrine and austerity in conduct. "In little religious sects," says Adam Smith, "the morals of the common people have been almost always remarkably regular and orderly; generally much more so than in the Established Church. The morals of these little sects, indeed, have frequently been rather disagreeable and unsocial." [1]

[1] Adam Smith's remedies for the peculiar defects and excesses which are likely to arise under a system of free trade in religion are still worthy of consideration.

"The first of these remedies is the study of science and philosophy, which the State might render almost universal among all people of middling, or more than middling rank and fortune, not by giving salaries to teachers in order to make them negligent and idle, but by instituting some sort of probation, even in the higher and more difficult sciences, to be undergone before he was permitted to exercise any liberal profession, or before he could be received as a candidate for any honourable office of trust or profit. If the State imposed upon the order of men the necessity of learning, it would have no occasion to give itself any trouble about providing them with proper teachers. They would soon find better teachers for themselves than any whom the State could provide for them. Science is the great antidote to the poison of enthusiasm and superstition; and where all the superior ranks of people were secured from it, the inferior ranks could not be much exposed to it."

The second of these remedies, which still needs advertising throughout Britain, especially in the northern parts, is the frequency and gaiety of public diversions. "The State, by encouraging, that is, by giving entire liberty to all those who, for their own interest, would attempt, without scandal or indecency, to amuse and divert the people by painting, poetry, music, dancing, by all sorts of dramatic representations and exhibitions, would easily dissipate in the greater part of them that melancholy and gloomy humour which is almost always the source of popular superstition and enthusiasm. Public diversions have always been the objects of dread and hatred to all the fanatical promoters of those popular frenzies. The gaiety and good humour which these diversions inspire were altogether inconsistent with that temper of mind which was fittest for their purpose, or which they could best work upon. Dramatic representations, besides frequently exposing their artifices to public ridicule, and sometimes even to public execration, were upon that account, more than all other diversions, the objects of their peculiar abhorrence." — *Wealth of Nations*, Book V., Ch. I., Pt. III., p. 333 (Nicholson's edition).

The general conclusion is that as regards demand — whether of material or immaterial utilities — freedom of choice should be allowed to the consumers. There are exceptions (to be noted in the next chapter), but the presumption is in favour of the rule both on historical and theoretical grounds. The rule is capable of very extensive application, not only to material, but to immaterial, forms of wealth as manifested in religion, art, literature, and science.

§ 3. *Benefits of Freedom of Production.* The object of production is to satisfy the demands of consumers. In modern societies a relatively small amount is intended by the producers for their own personal consumption. At the same time, however, all producers are consumers, and if we take as our consuming unit the family, and regard the non-working women and children, the aged and the infirm, as dependants on the working members, nearly all consuming units are also producers. Accordingly we have to regard production in a twofold aspect: (1) as affecting the means of enjoyment or the satisfaction of wants of others; (2) as affecting the enjoyment or the satisfaction of the workers directly through the conditions of production. This twofold aspect has already been noticed in the analysis of production and distribution in the first two books, and in that of progress in the fourth. We have now to consider generally the benefits of freedom of production as against the management of the State.

The interests of consumers of material wealth may be promoted by producers in several different ways, viz., as regards abundance, convenience of acquisition, cheapness, quality, and variety; and in each and all of these ways it is held that, on the whole, the maximum satisfaction of consumers is obtained by the free competition of producers. In some cases competition may fail in one direction, but the failure may be more than compensated by success in another. Competition in modern societies works in different ways and assumes different forms. Abundance,

convenience of acquisition, and cheapness are closely correlated, and may be taken together. Just as production is not complete till the commodity is in the hands of the consumer, so the most abundant supply is of no avail unless the means of acquisition are relatively easy and the price relatively cheap. We may have over-production with bankrupt prices, and at the same time the consuming power of the nation may be lessened through disorganisation of the means of distribution and acquisition.

On the other hand, in the excessive competition of the retail trades, cheapness is sometimes sacrificed to convenience. In the normal case, however, the competition which causes abundance causes also cheapness and convenience. The competition of producers in most cases not only answers the variety of wants, but actually promotes variety — the trader who cannot offer novelties is left hopelessly behind. In some cases the stress of competition is in the quality of wares or services — the prices being fixed by custom or arrangement. Thus competing railways and newspapers may make the same charge of a penny a mile or a penny a number, whilst the effective competition is to suit the tastes of the respective passengers and readers, whose gain as consumers is probably much greater than would result from cutting down prices.

That the free competition of producers on the whole benefits consumers is so patent and so generally admitted that further explanation and even illustration seem hardly necessary. The objections raised by the socialists and collectivists to the present system of production are not based on the inefficiency of processes but on the injustice of the distribution of products. Modern large production is throughout ruled by the spirit of economy in expenses and the survival of the fittest in methods, and the benefit of every economy and every improvement in the course of time, through the levelling power of competition, is transferred to the consumer. Alike in mechanical appliances, raw materials, commercial methods, and human skill, there

is a constant striving to obtain better results; and in general the betterment means the betterment of consumption. Particular kinds of capital and skill may become old-fashioned and their earnings may fall, but this is simply evidence that more effective methods of production have been invented and adopted. Vested interests of all kinds that are open to the influences of competition are bound to give way to the interests of consumers. And the curious thing is that in general the consumers are quite unconscious of any egoism, just as the producers are equally unconscious of any altruism;[1] the consumer has no more affectation of guiding the wheels of industry for the public good than the merchant has of trading for it.

Now that, for a brief space, biology has taken the place of natural theology, we no longer refer to the invisible hand, but we mean the same thing when we say that the consumer is of all animals the most fortunate in the everlasting struggle of nature, for in his case the environment is adapted to the animal, and not the animal to the environment. The history of industry during the last hundred years shows in every branch and method of production a great development of competition — trade competes with trade and nation with nation for the markets of the world. Perhaps the most striking illustration of the progress of competition is found where it might be least expected, namely, in the development of trade unionism according to its latest and most sympathetic historians.[2] When the industrial revolution broke down the laws and customs that had previously protected the workers, they combined to petition for governmental regulation; they prayed the government to enforce the regulations on apprenticeship and other restraints on free competition. When they failed in their appeals to law, they themselves tried to mitigate competition by imposing barriers to the entrance to a trade and to the adoption of new processes.

[1] *Industrial Democracy*, Vol. II., *op. cit.*, p. 671.

[2] Sidney and Beatrice Webb.

But speaking generally these methods of restriction have been abandoned. At present the unions in most cases[1] impose no restrictions on entrance — except the capacity to earn the standard rate, and they make no objection to new processes, provided — a rather large and elastic provision, it is true — that the condition of the worker is not deteriorated thereby. "It is interesting to observe," says Mr. Webb,[2] "that with the acceptance of this new policy by the employers and its complete apprehension by the workmen, it is not the individual capitalist, but the trade union which most strenuously insists on the very latest improvements in machinery." In the same way the unions object to the small masters and their old-fashioned methods. On the whole, also, they are content to leave the management to the entrepreneurs, and to accept the results of competition as regards processes and commercial methods. In brief, to adopt Mr. Webb's phraseology, they have abandoned the doctrine of vested interests in their trades for the doctrine of demand and supply. "Even trade unionists feel the doctrine of vested interests to be out of date."[3] The modification of demand and supply by the insistence, as in many other markets, on a reserve price (or the adoption of a common rule)[4] is held on the whole to increase competition. "It in no way abolishes competition or lessons its intensity. What it does is perpetually to stimulate the selection of the most efficient workmen, the best equipped employers, and the most advantageous forms of industry. It in no way deteriorates any of the factors of production; on the contrary, its influence acts as a constant incentive to the further improvement of the manual labourers, the machinery, and the organising ability and industry." That cheap labour is dear labour has long been a commonplace, and if the maintenance of a reserve price on labour is accompanied

[1] There are exceptions, *e.g.*, flint glass and hand-made paper.
[2] Webb's *Industrial Democracy*, Vol. I., p. 413.
[3] *Ibid.*, p. 571. [4] *Ibid.*, II., pp. 732, 733.

by a development of competition as regards the other factors of production, the consumer gains — and gains through the competition of producers.

The extension of freedom of trade in the interchange of commodities has been as remarkable as in their manufacture, especially in the case of Britain. Taking the modern commercial world as a whole, and considering the conditions affecting the internal trade of the great nations, the progress in the direction of free trade during the present century has been astonishing. We are apt to lay too much stress on particular tariffs and international fiscal arrangements, and thus to overlook the great fact of approximately perfect free trade within immense areas, *e.g.*, the United States and the German Empire. Even as regards Britain the foreign trade is relatively small to the whole trade of the country, and of this foreign trade only a relatively small part is subject to foreign restrictions.

That on the whole the result of this extension of freedom of competition in production and trade has conferred benefits on the consumer in the modes indicated at the outset — abundance, convenience of acquisition, cheapness, variety, and quality — is so palpable that it is not seriously disputed by the keenest lovers of paradox or original research.

A more just and more common objection, however, to the present system of competition is that the interests of producers are sacrificed to the interests of consumers. This objection naturally leads to a consideration of the second aspect of production; namely, as affecting the conditions of labour, or more generally the disutility of labour.

In the present chapter, however, I am dealing with the benefits of freedom of competition, the failures or defects being taken later and separately, for the sake of clearness.[1] Competition tends to benefit the producers *qua* the conditions of production in several ways. In the first place, the more effective the competition, the more readily do all

[1] See next chapter.

workers find the work best adapted to their capacity — one of the greatest advantages of division of labour. The three great classes of men, women, and children are employed in the order of their strength and abilities; men exclusively are employed, for example, in mines, foundries, building, railways, and the military and police services, whilst in the industries in which men and women are employed, *e.g.*, the textile, we have also the *propria quæ maribus*, the men taking the heavier, and the women the lighter tasks. Similarly as regards the two most numerous employments of this country, viz., agriculture and domestic service, in the former men, in the latter women, do most of the work. Within particular employments competition leads to further selection, and differentiation and promotion are by merit and not by seniority. The ideal of perfect competition is perfect adjustment of ability, natural and acquired. Secondly, the better the conditions of employment, so much the better are the workers from whom the employer may choose. This is perhaps best illustrated in the case of domestic servants. The competition of employers acts more by offering better conditions than higher money wages, and the short term of engagement now usual (the month instead of the year) secures the continuance of the benefits offered. Similarly, though not perhaps to such a marked extent, the best masters — *qua* conditions — obtain the best workmen. Thirdly, corresponding to the economy of high wages, there is the economy of good conditions. Improvements in the conditions of work promote the efficiency of labour. The "law of substitution" may act through sanitation and shorter hours of labour.

There can be no doubt that freedom of competition in the large sense of the term does tend to improve the conditions of employment in the modes indicated. It is, however, in this direction also that freedom of competition is most liable to failures, both as regards defects of adjustment and positive abuses. "For fifty years after the introduction of the improved processes of production which

mark the commencement of the era, the working-classes, instead of benefit, undoubtedly received injury. The civilised nations, England in particular, had developed forces they could not control; the established laws and usages fell into desuetude, and there followed a general disorganisation of industrial society. . . . The process of adaptation to the new environment has been rendered less speedy than it might have been by the absurd extremes to which the doctrine of *laisser-faire* has been carried."[1]

§ 4. *Benefits of Freedom of Distribution*: (a) *Competition of Individuals.* The abuses under actual conditions of imperfect competition on the one side, and of excessive or rather specialised competition on the other, have been of late so abundantly illustrated that the distribution by the competition of individuals of the national wealth and the annual dividend may be likened to the principle of an Act of Parliament that has disappeared under a cloud of amendments. "Any discussion," it is asserted in *Industrial Democracy*,[2] "of the relation of consumer and producer, or between capitalist, brain worker, and manual labourer, which is based on the assumption of a mutual exchange of services among freely competing individual bargainers, is from a practical point of view entirely obsolete. We have in fact to work out a new scientific analysis, not of any ideal state of natural liberty, but of the actual facts of a world of more or less complete economic monopolies — legal monopolies, natural monopolies, monopolies arising out of the prejudices of the consumers, and last but not least, monopolies deliberately constructed by the tacit or formal combination or amalgamation of all the competing interests." That "monopolies" of the kinds indicated are still important elements in the industrial system may be readily granted; but it would be a grave historical error to suppose that at present, even in the United States, the proportion of "monopoly" to "competi-

[1] *Cf. Effects of Machinery on Wages*, new edition, p. 132. See next chapter.

[2] Vol. II., p. 688.

tion" is greater than at any former period, or that monopoly is a modern reaction against the excesses of modern competition. The destructive part of Adam Smith's work was directed mainly against the interferences with natural liberty in all directions by the survivals of the mediæval economic system. Mediæval economy was pervaded to a far greater extent with the spirit of monopoly than is the most advanced modern economy. But perhaps the best example of the ascendancy of the "monopolistic" spirit and of industrial paternalism is found in the records of the Byzantine Empire.

Constantinople, after the completion of the settlements of the barbarians, thanks to its unrivalled situation and its concentration of the inherited powers of civilisation, had retained the commercial supremacy of the world.[1] But the ruin which the assaults of the barbarians had failed to accomplish was achieved by the weakening effects of cumulative economic causes. In every department of economic activity officialism and bureaucracy checked enterprise; enormous sums were spent in "public works" and "doles" to the poor; the navy and army exhausted the treasury and the population; and all the abuses of overgovernment and overexpenditure and overtaxation were heaped up. These general causes of economic ruin have indeed become commonplaces of history and of political philosophy; but for the present purpose the particular development of "monopolies" deserves special attention. A graphic account of the series of monopolies into which industry had been converted survives in the edict of the Emperor Leo VI., the Philosopher (misnamed according to Gibbon), dating from the first years of the tenth century.[2] "Nowhere has the organisation of corporations

[1] "The physical strength of Constantinople is demonstrated by the magnificent manner in which it held its own in the protection of all that was left of ancient civilisation for more than a thousand years." — Cunningham, *Western Civilisation*, p. 197.

[2] *Le Livre du Préfet ou l'édit de l'empereur Leon le Sage sur les Corporations de Constantinople*, translated into French from the Greek by

been developed as at Constantinople; professional colleges, unions of artisans, of trades, of artists were so many wheels in the administration. Public authority was the absolute mistress; it fixed the purchases of raw material; it directed the methods of manufacture, it excluded industrial products of which it disapproved; it fixed the profit of the master and the wages of the workers: to fulfil these multiple missions it had its agents, its spies, its informers; it went so far as to impose the duty of informing on all the members of the trading bodies. Enormous fines, banishment, flagellation, removal of the beard and the hair, these were ordinary punishments. But above all was the '*peine fort dure*,' the erasure of the name from the corporation, in other words, the forfeiture of the right to practise the art or trade." [1]

And be it observed that the government in question was a government imperial in form, it is true, but based upon Christianity and Roman law. The power of the spirit of monopoly at the present time is only a shadow compared with the past; and that it is so is due to the growth of the power of the opposing system of natural liberty.

It is then still worth while examining the natural results of distribution according to this system; and to bring out the leading ideas we may take the system in the extreme form of an ideal not yet attained — the other extreme to the wornout "obsolete."

Let it be supposed, first of all, — though this is only one part of the system, — that there is perfect freedom of competition between individuals. This implies mobility of labour and capital, and fully organised markets both for services and products. No one, I suppose, is inclined to regard such mobility and organisation as anything but preventives of economic waste to the public at large.

Jules Nicole. (Geneva text, 1893, translation, 1894.) This work is well worthy of the attention of English students. *Cf.* Pareto, *op. cit.*, Vol. II., 805–894. See also Gibbon's *Decline and Fall*, Chs. XL. and LXIV.

[1] *Recherches sur l'histoire d'économies politique*, par E. Nys, p. 4.

Let the terms "labour" and "service" be taken in the widest sense, and let the conditions of perfectly organised markets be applicable to all sorts and conditions of services. Under such conditions what would be the general results of the free play of supply and demand?

The *first* result is, that for equal efficiency there will be equal reward, and no scheme of socialism founded upon reward according to deserts ever aimed at more perfect equality. The units of "labour time," or of "labour stress and strain," or of "vital force" will fetch the same price per unit, and the individual whose personality comprises most units will obtain the highest aggregate reward.

Secondly, at the equilibrium price the supply will be just equal to the demand. If any are left over their competition will lower prices until the quantity demanded at the price equals the supply. As the price falls, some of the sellers will withdraw, but the withdrawal is voluntary, because it is not worth while to accept the market price. But the point is that every one willing to sell at the price has the opportunity.

There is with perfect competition no chance for some to get overwork with overpay, and others no work with no pay; and so far perfect competition means "fraternity."

In the *third* place this equality of wages (per unit as before) is not brought about by authority — by prefects, town councillors, or policemen; the moving force of the whole system is liberty. No man is forced to sell or to buy his labour, his capital, his ideas, or his time. And thus the ideal of perfect competition is liberty, equality, and fraternity, that is to say, in the practical legitimate sense of liberty of exchange, equal prices, and mutual services.

And further it may be observed that not only does such a system of distribution conform to the common interpretation of natural justice, but the effect of such a scheme on production is that the maximum of utility is produced at the minimum cost of disutility. It is not necessary again to introduce the technical niceties of the utilitarian calcu-

lus. The language of Adam Smith is still sufficiently intelligible and forcible. "The proper performance of every service seems to require that its pay or recompense should be as exactly as possible proportioned to the nature of the service. If any service is very much underpaid, it is very apt to suffer by the meanness and incapacity of the greater part of those who are employed in it. If it is very much overpaid it is apt to suffer perhaps still more by their negligence and idleness." Adam Smith was referring in his context to the wages of clergymen, but the general statement admits of a general application. The proper performance of every service is secured by giving the true competition rate, or what is only in question at present: the maximum national production is thereby secured.

It cannot then be said that competition of individuals fails as an ideal, though it may be that, as in the case of other ideals, it breaks down in practice. Actual competition, indeed, falls short in all the conditions assumed — in mobility, in the organisation of markets, and in the adjustment of supply to demand. Some of these failures, however, of competition of individuals are met by voluntary associations, which are also part of the system of natural liberty.[1]

§ 5. (b) *Benefits of Freedom of Association.* Up to this point in the survey of the benefits of individual freedom it has been assumed that the individuals in question attain their ends by independent action. If they act in combination, as in the complex processes of division of labour, these combinations are managed by an entrepreneur, who is supposed to make separate bargains with each contributor; and, in short, the whole industry of the country is carried on by an endless number of contracts of truly competing individuals. The case of domestic servants (almost the largest class of labour in the United Kingdom) is an example of such a method of independent bargaining on a

[1] For further development of the argument of this section, see "Essay on Combination and Competition" in *Strikes and Social Problems.*

large scale; and in agriculture, the most important productive industry, the large farmer may be taken as a type of an employer who still bargains with his men separately.[1]

But we have also seen that competition is complex, and that free competition of individuals may exist in some forms, whilst in other respects they are fettered by law and custom. And apart altogether from the compulsion of law and custom — considered as forces external to the individual — individuals may make a complete or partial sacrifice of their independence by entering into voluntary associations. Occasionally, as in certain monastic orders, there is an absolute surrender of personal liberty; in other cases the surrender is only partial, and is limited to certain definite purposes.

In general, it is true that the idea of competition excludes the idea of combination or association, even if the combination is in origin and intention purely voluntary.

But industrial freedom is wider than competition, and may be held to cover voluntary associations as contrasted with legal compulsion. Associations of this kind, though in respect of their regulations they limit the independence of their members, by increasing their power may add to their personal freedom on the whole. In these voluntary associations the individual limits his freedom of action by consenting to obey certain rules, or it may be the will of a majority or of an arbiter, or even of a dictator. In voluntary associations we have real examples of "social contracts," very different from the hypothetical quasi-social contract of political theory. These associations may be for all kinds of objects, — moral, religious, æsthetic, as well as economic, — but most of them have an economic foundation in the sense that they incur expenses and must

[1] In 1891 there were employed in "domestic offices or services" 2,341,696 persons, and in "agriculture" 2,461,048 persons. How many would fall under the term "labour" is doubtful, but obviously the great majority. The number of Trade Unions in 1892 was 1208, and the total membership 1,501,083. — *Abstract of Labour Statistics for the United Kingdom*, 1900.

furnish capital or revenue; and so far they enter into economic inquiry.

There are, moreover, throughout the modern industrial state (as in former ages) numberless examples of voluntary associations for purposes mainly economic. Under certain conditions these associations, which are voluntary to begin with, become, by the aid of the law or in spite of it, compulsory; that is to say, those who wish to attain the objects promoted by these associations are legally or practically obliged to submit to their rules. Such, for example, was the case in the development and degeneration of many forms of guilds.[1]

For the present, however, attention may be confined to associations to which the entrance is essentially as well as nominally free.

In an examination of principles it is necessary to be influenced as little as possible by the peculiar characteristics of certain forms of association that happen at the time to bulk largely in the public view. At present there is a tendency to consider manual labour as typical of all labour, and material production of all production; and similarly there is a tendency to look on trade unions as typical of all associations of labour, and trusts as typical of all associations of capital. It is desirable, then, to indicate the wide extension of the principle of voluntary association in cases in which the voluntary characteristic is still predominant.

There are, for example, the many forms of partnership, so important and varied that the law of partnership occupies a large part of the field of mercantile law.

The *first* characteristic of partnership is the *voluntary* character of the agreement: In English law there must be consent of every individual member of the firm to authorise the introduction of a new one, and so necessary is this consent, that the executors of a deceased partner are not allowed to occupy his place unless there be a stipulation

[1] See above, Books II. and III.

in the contract of partnership, in which case *modus et conventio vincunt legem.*[1]

Next to the voluntary character of the association we may notice, *secondly*, the risk involved. As Professor Ashley observes in his admirable account of the development of the canonical doctrine in the Middle Ages: "The essential element in partnership was that the investor shared in the risk of the venture or business, and the canonists were ready to invert the definition and say, 'Where risk, there partnership.' Accordingly the popular definition of usury among business men came to be gain 'without risk.'"

This element of risk in ordinary partnership is so essential that the principle of unlimited liability prevails, and thus it often becomes a question of great legal difficulty and practical importance as to what does or does not constitute partnership, especially as regards third parties and the public.

The *third* characteristic of partnership is the power of any member to bind the firm in all matters within the scope of the partnership, either according to the agreement of the partners, or according to the usual interpretation of the business in the mercantile world. Each partner is, so to speak, the recognised agent of the firm, and the ordinary rule applies, that *qui facit per alium facit per se.* There is an unlimited mandate or power to each person to bind the association in the line of its business.

Finally, the object of the association of partnership is gain or profit; it is not the attainment of various social and moral aims for the general welfare of the partners or of other persons.

Whether a share in the profit is sufficient to constitute partnership as to personal liability and power of binding the firm, is a question of law.

Similarly the nature and extent of the contribution in "property or labour," goods, money, skill, or industry, may or may not be held to constitute partnership according to

[1] Smith's *Mercantile Law*, Vol. I., p. 9.

law. For the present purpose, however, it is necessary to separate carefully the constituent economic elements from the purely legal principles and legal divisions.

And thus regarded, the essential characteristics of partnership are the *voluntary* nature of the agreement, the *unlimited liability* of the members, the *unlimited power* of *binding the firm* in the line of the business, and the object of *gain* or *profit*.

Thus regarded, it is plain that the idea of industrial partnership as commonly conceived is based rather on accidental, than essential, qualities of ordinary partnership. It does not conform to such an association as regards the nature of the agreement, the liability of the members or the power of mandate, and in general even the share in the profit is associated with various social aims.

With the development of industry, however, partnership has given rise to joint-stock companies, in which both the liability of members and their share in the management are limited and curtailed. The tendency (since 1855 in the United Kingdom) has been for shareholders to be liable for the extent of their shares only, and to delegate the power of management entirely to the directors.

With these privileges it is only natural that the rights of the public should be specially protected, and such protection has been partially obtained in the long series of Companies Acts.

The benefits of such companies (and their enormous range) have already been considered. It is sufficient here to point out that the voluntary character is carried to an extreme. In general, the shares can be disposed of in the open market and sold to the highest bidder, the company exercising no power of refusing admission. The same person may hold shares in numbers of very different undertakings in which he only risks his original purchase money (assuming that the shares have been fully paid up), and takes practically no share whatever in the management.

Joint-stock companies are essentially voluntary associations, and they compete with one another and with private firms in the conduct of various kinds of business. They have, however, always shown a tendency to act in the spirit of monopoly, and as far as possible to have their monopoly rendered effective by law. Thus railways compete, it is true, with other railways and with other means of communication by land or sea, but under many conditions they acquire a practical monopoly in the districts which they serve, or the great trade routes they occupy. Monopolies that arise in this way from the natural development of certain kinds of companies, may have certain advantages both from the point of view of the consumer and of the general public. In general, however, as monopoly increases, the benefits of freedom are curtailed, and accordingly a case for governmental control is generally recognised in order to restore those benefits.

Recently the tendency to monopoly has been further developed (especially in America) by the creation of trusts. These trusts in their beginnings assume the voluntary character; the shareholders of the constituent companies surrender their rights, and rules are adopted for the regulation of the whole industry.[1] But the essential idea is to destroy all outside competition, and to compel all engaged in the undertaking to submit to the trust. The immediate effect of this attempt to destroy competition may be to cheapen the commodities or services even below cost, but the ultimate object is to make the gain of the trust the only consideration. A trust may accidentally, by preventing the waste of competition and by other economies of larger production, benefit the consumers even ultimately, but such a result is not intended and is not probable.

Similarly a trust may, to begin with, pay higher rates of wages and even ultimately through the greater efficiency of production keep up wages, but again such a result is

[1] *Cf.* Ashley, *Economic Journal*, June, 1899.

not intended and is not probable. The object being profit, as a rule, once competition has been destroyed, the leaders of the trust will resort to the simple methods of high prices and low wages.

As regards wages, Adam Smith called attention to the tacit associations of masters, and as regards high prices the tacit associations of retail traders are notorious. The trust, simply because it is open and avowed in its monopoly, is not likely either to raise wages or to depress prices.[1]

We arrive now at trade unions as voluntary associations in the interests of labour. After the examination previously given, I shall at this point only call attention to one general result of the admirable survey (on its positive side) of the authors of *Industrial Democracy*, namely, that the unions must rely mainly in the future on the method of legal enactment. That the unions should carefully consider all legislation affecting industry, and should endeavour to promote the interests of their members (and of the working-classes generally) by the aid of law and government, may be considered as part of their primary duty. And that law and government can improve the conditions of labour and the standard of life, and that in many ways unregulated *laisser-faire* leads to the degradation of labour, has been abundantly proved. But that the method of legal enactment can be beneficially extended to the regulation of wages and more generally of the prices of services and commodities, seems to me altogether improbable both on historical and theoretical grounds. The "method of legal enactment" is a very elastic phrase, which proves, on examination, to be no more simple and obvious than the system of natural liberty.[2]

The voluntary character is fully retained in coöperation, and on that account this form of association has always been highly esteemed. Unfortunately, however, as re-

[1] Ashley, *Economic Journal*, June, 1899.

[2] See Ch. IV.

gards production (as distinct from amalgamations of retail trade), it has had no more than a *succès d'estime*. All the coöperative production of the United Kingdom is but a fragment of its whole industry, and the rate of progress since Mill wrote his prophetic eulogies has been remarkably slow. To expect that the productive industry of Great Britain will ever be carried on mainly by coöperative societies is about as reasonable as to expect that cash payments will altogether replace credit transactions.

Similarly, "industrial partnership," though successful to a limited extent, does not appear likely to displace the ordinary methods of industry. It is indeed a misnamed partnership, lacking, as already shown, most of the characteristics, *e.g.*, liability to loss, share in management. "Profit-sharing" — the better name — is, in effect, not a method of partnership, but a method of payment by results.

The element of truth that is of importance in these latter schemes is not dependent on their peculiar characterisation. Altogether apart from coöperation and profit-sharing, voluntary agreement and good faith, however manifested, are better for capital and labour than compulsion and trickery. It is good business to have workers interested in their work, for masters and men to recognise the "coöperation" of labour and capital, and to substitute the *uberrima fides* of "partnership" for mutual distrust. But the words must not be made to carry more than they can bear.

Before leaving the benefits of freedom of association, special attention may be directed to one of those benefits that is too often overlooked — namely, the freedom to decay. Voluntary associations that cease to fulfil their functions soon wither away, and are replaced by other men and other minds. But once an association has gained the protection of the law and has learned to rely on the law, it attains the artificial immortality of legal corporations. What may have begun as a voluntary association

and has passed into the extreme form of a department of government with a monopoly against all interlopers, long after it has become worse than useless, at the best dies hard. A government department may easily become insolvent, but never bankrupt until it shares in the final ruin of the State, and a legal enactment is seldom repealed until its accumulated abuses become intolerable.

§ 6. *Summary.* It is universally recognised that in consumption freedom is a beneficial rule, and must at any rate be the general rule. It is true, to take prominent examples, that there are laws against adulteration and laws regulating the consumption of liquor, but the whole of these laws affect the aggregate mass of consumption to a relatively small extent. The consumers of this country were never so well provided with necessaries and luxuries, but laws against adulteration have had a small share in this result compared with the competition of traders; and the diminution of drunkenness during the present century has been astonishing, especially considering the growth of wealth, but the regulation of the drink trade has had little effect compared with the revolution in public opinion. Still, even in consumption, there is room for governmental control in certain cases.

As regards production, freedom of enterprise and freedom in the selection of processes is still the rule, and *qua* production is recognised as beneficial. Every industry is constantly changing and the initiative is taken by individuals.

No admirer of bureaucracy pretends that it is the duty of government to appoint official inventors and discoverers for various industries, and the survival of the fittest in productive processes is achieved by competition. Even when commercial competition is restrained by a trust, industrial competition survives within the ring. But when production is regarded, not from the point of view of the products, but from that of the personality of the producers,

the case is by no means so simple. It is true that effective competition tends to increase the efficiency of labour, and one of the factors in efficiency is improvement in the conditions of work. To take a practical case, the best employers *qua* conditions get the pick of labour, but *per contra* the worst employers have relatively the more power over the weakest labourers. On the whole, competition acts very imperfectly in securing the best conditions of production as affecting the health and morals of the workers, and regulation by the State has been extensively adopted with success. Such regulations, however, have not so much checked competition as provided rules according to which it must be conducted — like the game of golf, or the game of speculation. There is no lack of competition when the rules are reasonable; every one is compelled to play the game, and the entrepreneur might take a worse model than the good sportsman.

As regards the distribution of the national wealth, the tendency of competition — if effective as regards the mobility of the productive agents and the organisation of markets — is to proportion reward to the net value of the service rendered to the society. And in many cases inequalities of reward in this sense would be remedied by more effective competition. In fact, as already shown, the main factor in the progress of distribution has been the substitution of freedom of contract for privilege and delegated or permitted authority. There are, however, many cases in which the conditions essential to freedom of contract do not prevail, and there are others in which freedom of contract passes into freedom of coercion.

Such is especially the case with associations which are instituted on a voluntary or contractual basis. Such associations easily attain powers which, relatively to individuals, give them an overpowering position; and a combination of associations may have similar power compared to any one. There are further relations assumed by associations toward the public which could never arise

with individuals. One man is as nothing against the whole people; but one company, still more one gigantic trust, may revive in a new form the old right of private taxation. The predatory and parasitic tendencies of combinations are far stronger than those of individuals, just as a mob is more cruel than the average of its members. And altogether apart from abuses, the civil relations of associations to third parties are extremely complex. Accordingly a large part of mercantile law is occupied with various economic combinations, — *e.g.*, partnerships, companies, unions, and associations, — and with further development, further extension of the law may be necessary.

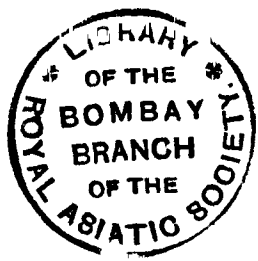
In conclusion, it may be observed that it is still a fundamental principle of the law of England that all contracts in general restraint of trade are void, although the interpretation of the term has varied in the courts, and in particular cases has been definitely declared by statute.

And in the United States of America any infringement by law of the principle of freedom of contract is contrary to the Constitution.

On the whole, whether we like it or not, there is no gainsaying the fact that throughout the whole field of economic activities in the modern State, alike as regards consumption, production, exchange, distribution, and association, the system of natural liberty prevails over the system of regulation.

But natural liberty also has the defects of its qualities, and may require restraint or supplement on the part of the State.[1]

[1] See next chapter.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CHAPTER III.

FAILURES AND DEFECTS OF INDIVIDUALISM.

§ 1. *General Possibilities of Failure of Individualism.* The system of natural liberty rests upon two fundamental and closely allied assumptions, and unless these assumptions are realised in practice, the benefits which have been examined in the last chapter will not be forthcoming. It is assumed, namely, in the first place, that the individuals concerned are in a state of freedom, and secondly, that they are guided only by self-interest. A state of freedom, however, is an expression almost as doubtful in meaning as a state of nature. Man with the progress of society comes more and more under social influences; he is more and more a political animal in the original significance of the term. Liberty itself is unmeaning without society; the man on the desert island is not free, he is a prisoner shut in by the ocean. Rational freedom is freedom under the law, freedom in communion; absolute freedom is as unmeaning as the absolute velocity of a particle in space.

This doctrine is as old as Aristotle, and as fresh as the latest presentation of Hegel.

"It is possible for us to acquiesce as rational beings in a law and order which on the whole makes for the possibility of asserting our true and universal selves at the very moment when this law and order is constraining our particular private wills in a way which we resent or even condemn. Such a law and order, maintained by force which we recognise as on the whole the instrument of our greatest self-affirmation, is a system of rights; and our liberty — or to use a good old expression, our liberties — may be identified with such a system considered as the

condition and guarantee of our becoming the best that we have it in us to be, that is, of becoming ourselves." [1]

Freedom under the law means more than passive obedience. Mere torpid submission to inherited laws and customs may check all freedom of movement and tendency to variation, and although the people do not feel the pressure of these social sanctions or restraints on their individual liberty, there is no scope for the benefits of individualism. And it will not suffice simply to sweep away the old regulations and trust to natural liberty at once to assert itself. The history, for example, of the British Empire shows that the fair field for individual enterprise can only be gradually prepared. The great French Revolution apparently uprooted all the evil laws and customs of the old régime, but it did not establish industrial liberty.

Again, apart from law and custom, the reality of freedom may be restricted by inequalities of position. There may be nominal freedom of contract with the power of dictating terms on one side. There may be nominal personal freedom in various home industries with less than the real liberty of serfs and slaves. "When the rate of pay is so small that even sixteen hours' work does not earn more than the bare day's subsistence, all free time disappears, and to quote the House of Lords Committee, the lives of the workers become periods of almost ceaseless toil." [2]

Accordingly, so far as the first assumption is concerned, namely, that the individuals are in a state of freedom, it is easy to see that the system of natural liberty is by no means simple and obvious. The benefits of individualism may be lost or diminished, not because people have too much freedom, but because their freedom is curtailed by

[1] *The Philosophical Theory of the State*, by Bernard Bosanquet, p. 127. *Cf.* Shakespeare, Hamlet, Act I., Sc. 1, l. 78: —

"This above all: to thine own self be true,
And it must follow as the night the day,
Thou canst not then be false to any man."

[2] Webb, Vol. II., p. 545, and *cf.* Mill on *Communism*, Bk. II., Ch. I., § 3.

their own inertia or poverty. The crofter sees the great ships sailing by, but he clings to his croft of his own free will.

Again, as regards the *second* assumption, that people are guided by self-interest and only consider the interests of others so far as they affect their own, it must be observed that self-interest is, like freedom, a variable conception. It may be rudimentary and animal, and only impel to the satisfaction of animal desires; on the other hand, it may be highly developed and spiritual, and an individual may spend the greater part of his wealth in promoting various objects — social, religious or æsthetic — in which, to express common thought in common language, he is interested.[1]

Between these two extremes — the satisfaction of animal desires and that of spiritual aspirations — the guidance of self-interest will steer a course, or zig-zag from side to side, according to the nature and education of the individual.

Thus it follows also that the social benefits of individualism may be lost or diminished, not because people are guided by self-interest, but because they are themselves brutish and ignorant — their self-interest is of a low type.

These general reflections lead to the conclusion that individualism, considered as a working economic system, can only succeed under conditions favourable to its positive elements; the negative absence of restraint is not enough. Success or failure will depend largely on the kind of individuals by whom the system is adopted.[2]

Even egoism pure and simple requires for the attainment of its ends more than negative freedom and keen

[1] *Cf.* Pope's *Essay on Man*, Epistle IV., l. 363.

"Self-love but serves the virtuous mind to wake,
As the small pebble stirs the peaceful lake;
The centre moved, a circle straight succeeds;
Another still, and still another spreads;
Friend, parent, neighbour, first it will embrace,
His country next, and next all human race."

[2] *Cf.* Mill, Bk. V., Ch. XI., 16, p. 591.

selfishness. To take the simplest case, a man may be a perfervid egoist and lover of pleasure, and respect neither God nor man in realising his pleasures and his freedom. But he may fail in his endeavours; in his zeal he may transgress the rules of common morality or offend religious sensibilities; he means to be independent and happy, but he only succeeds in being eccentric and uncomfortable.

If, however, individuals in a state of egoistic freedom may fail to attain their own interests (in the narrow sense), it is hardly likely that they will unconsciously promote the interests of the community in which they live. Private vices may sometimes be public benefits; but beyond that admission the paradox would not now find a defender. That the extravagance of the rich is necessary for the employment of the poor is an economic fallacy typical of many others long since destroyed.

Moreover, even if we allow for the abundance of practical difficulties of all kinds, and suppose that the self-interest of individuals is highly developed and adequately enlightened, there are numerous exceptions to the proposition that the common good is best secured by giving free play to the individual. I proceed to enforce and illustrate this position by reference to the different departments of economic life in a modern industrial society.

§ 2. *Failures in Consumption and Demand.* In considering the economic effects of individualism on the community as a whole, we must certainly take for granted inequality of property and income. In the modern State individual possessions range in value from zero and hopeless indebtedness up to millions and unlimited credit. And if we combine these inequalities of revenues with the various species of diminishing utility from expenditure, it is only too easy to prove that expenditure determined by the self-interest of each will not secure the interest of all. The practical difficulty, indeed, is to justify these inequalities as unavoidable or as conducive to aggregate

production, or on other grounds, to be endured or applauded.

Taking inequality of wealth as a positive fact, it is clear that the relatively rich will demand all kinds of luxuries and their demand being effectual these luxuries will be produced; whilst the relatively poor may have insufficient necessaries and the extremity of their want exercise no influence on production: there may be an effectual demand for cakes, but only an empty desire for bread, there being an obvious loss in total utility to the two classes together.

It is not necessary, however, to resort to extremes, which are always suspected. If we take any two unequal incomes, and make the usual assumptions regarding our own flesh and blood, the possessor of the larger income will guide the larger part of production for his own benefit, and not for that of himself and his neighbour combined.

There are no doubt compensations, but, granted unequal incomes — and disregarding for the present the more remote influences on production and accumulation — freedom of demand and consumption, may from the social point of view, lead to a loss of social utility in many ways.

In the *first* place, if the things which are the objects of demand are limited by nature, it is possible that the demands of the rich for extravagant luxury may stint the necessaries of the poor. Such has often been the case in the past as regards land (and other gifts of nature), and is so still in several respects in the most advanced communities. If a large rural population is evicted to make room for cattle, sheep, or deer, the immediate loss to the inhabitants of the districts affected in general altogether outweighs the immediate gain. It may happen that ultimately the loss to the nation will be more than compensated by the greater efficiency of the deported labour, but the immediate object of the depopulation is in general simply a rise in rent or promotion of sport, and it is quite

possible that the compensation to the community may never be forthcoming.

And passing from the limited gifts of nature, where the expansion of possessions in one class means of necessity the contraction of other classes, a similar failure of social utility may be observed in all things, that can only be increased with a rapidly diminishing return. The productive powers of society as a whole are wasted as regards the interests of the whole community. Nearly all expensive luxuries, *e.g.*, the delicacies of the table, dress, houses and their decorations, fantastically trained servants, curiously bred dogs, exemplify this form of economic waste. In some cases, it is true, the extravagance of the rich is concentrated on works of art or encourages various forms of culture, but no one would contend that millionaires and lesser plutocrats justify their social existence as such by their control of expenditure. Such justification as their existence finds is from the side of production. Fortunately the art of selfish expenditure — as exemplified in the concentrated waste of labour — has much degenerated since the time of the Roman Empire, and many forms of extravagant waste are now either unknown or impossible through legal or moral impediments. And this leads to the still wider consideration that freedom of demand may result in a demand for evil things, and in this case the poor — relatively to their means — often show worse choice than the rich. The problem of overcrowding in cities is only partly due to the limited supply of houses; in many cases the people prefer overcrowding, and in still more they object to the trouble of living at a distance from their work. A more judicious expenditure would vastly improve the condition of the working-classes above the lowest ranks, and a rise in wages without an improvement in expenditure often has no effect in raising their condition.

Consumers in general are apt to be too much influenced by immediate cheapness. The demand for cheapness

naturally leads to adulteration and deterioration of quality, just as the demand by the wealthy for expensive goods that will show off their wealth leads also to deterioration of art.

The element of time must also be considered. It is to the interest of the individual taking interest to mean the acquisition of pleasure to enjoy the day and discount the future heavily. Even one generation, guided in this way, may from the point of view of the nation as an enduring society lay too much stress on the present, to the serious danger of future prosperity. Thus, for example, the treatment of forests in new countries, and not infrequently in old, is ill managed in the interests of future generations. And speaking generally, one of the most vital distinctions is that between the satisfaction of present and future needs, the distinction between capital and non-capital, the balance of production over consumption.

On the whole it is evident that freedom of consumption is liable to many chances of failure, whether we consider the direct immediate consumption of individuals or the indirect consequences as regards the future. Such failures are still more likely to occur when the interests of others (present or future) are indirectly affected. And finally, the chances of failure are further increased when we bring in the various forms of immaterial wealth — education, arts, letters, and religion.

Thus, *primâ facie*, there is room for interference or guidance on the part of the State as regards what at first sight seems the best established position of the system of natural liberty, viz., freedom of demand. Freedom of demand may be either injurious or insufficient; and the State may be called on to control private expenditure or to increase public expenditure, on various social and moral grounds, as well as on more purely economic considerations. Whether, on the whole, State interference is desirable, depends on the methods and limitations of governmental action.[1]

[1] See next chapter.

§ 3. *As regards Production.* In the last section production has only been considered indirectly as affected or guided by consumption or demand. It has been implicitly assumed that the producers carry out the orders of the consumers; that they are, so to speak, simply agents for the consumers, and like other agents under a perfect system of law can never benefit at the expense of their principals. Practically, however, the interests of producers are found to conflict with the interests of consumers in several ways: they may conflict as regards cheapness, abundance, and quality. It is to the interest of the producers or dealers to sell as dear as possible after taking into account the possible competition of others and the possible effect on demand. To neutralise competition they may resort to combination and monopoly, and if they do so there will in general be a rise of price against the consumer. If they can fix prices arbitrarily, monopolists generally err on the side of excess, even in their own interests, and still more from the point of view of the consumer. The association of cheapness and plenty is so evident that it is hardly necessary to repeat that artificial dearness involves artificial restriction of supply.

Again, there may be, as in retail trades, a tacit combination to fix prices, the competition of the retailers being confined to competition for customers. As regards legal, medical, and ecclesiastical fees, and payments for various kinds of services, we are also as in other things a nation of shopkeepers. [1]

It is to the interest of any one producer or dealer to displace his rivals by advertisements and other costly expedients, and, taking a broad survey of production and consumption, a general waste is thereby incurred.

[1] This expression is found in Adam Smith, though generally ascribed to Napoleon Bonaparte. "To found a great empire for the sole purpose of raising up a people of customers may, at first sight, appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers, but extremely fit for a nation whose government is influenced by shopkeepers." — *Wealth of Nations*, Bk. IV., Ch. VII., p. 253 (Nicholson's edition).

As regards the quality of wares, the profits of adulteration and of the substitution of inferior kinds are attractive to the self-interest of producers. A little water in heavily taxed spirits or tobacco is very profitable, as is also the promotion (to adopt a simile of Mr. Gladstone) of Cape and Australian wines to the style and titles of French vineyards. A slight change of language will adapt the same ideas to the case of immaterial wealth. Legal documents and counsels' speeches are copiously diluted with words.

Production for the present purpose includes exchange as already implied in some of the examples, and most commodities bear large surtaxes imposed by useless exchanges before they reach the hands of the consumers. Even ideas cannot be distributed without considerable cost in respect of intermediaries.

The waste involved in unregulated freedom of production and transmission is especially observable in the advancement of learning of all kinds, although it must also be remembered that it is precisely in this field that regulation by authority has met with the most signal failure.

On the whole, there can be no question that in certain cases freedom of production, like freedom of demand, may involve economic waste and social disorder. The failures of production, moreover, as already explained, are greatest as regards the conditions of employment or the disabilities involved in labour. On this matter the history of factory and other working-class legislation affords evidence that is only too abundant. The difficulty is not to discover examples of failure, but practicable remedies.

§ 4. *Failures of Distribution.* It is, however, as regards distribution, that the failures or defects of unfettered individualism seem greatest; and it is also in this department that there is the greatest difficulty in deciding on the tests by which failures and defects are to be measured. We cannot in this case, consistently with the view taken in this work, adopt as our standard maximum utility,

and simply consider how far individual freedom fails to realise this ideal; nor can we take for our standard some particular meaning of justice as determined by ethics, or by natural or revealed religion.

Whatever view, however, is taken of the ultimate ideal of distribution, the principal question to determine is this: How far does perfect freedom of competition, or more generally the individualistic system, as regards labour and property, secure for each the net value [1] of his contribution to the national dividend? To what extent failure in this respect amounts to a failure in justice or a loss of utility or of liberty involves a wider philosophical inquiry.

In previous portions of this work I have noticed the failures of distribution due to practical difficulties in securing full play to freedom, — the failures due to want of mobility of labour and capital, and to the friction of use and wont and other social influences. I propose now to examine the individualistic system of distribution apart from these so-called disturbing causes.

Taking as the standard or test of success how far each person receives the net value of his contribution to the national dividend, there may be failures on the side of excess or of deficiency; and, indeed, the one involves the other, as in the converse case of taxation when relief to one class involves additional burdens on others.

The economic test may be applied to the three great species of income in order.

(1) And first, as regards the economic rent of land and other gifts of nature, — *i.e.*, apart from the capital sunk in them, — this species of income is derived from appropriation and inheritance. The economic rent, pure and simple, is unearned by the individual possessor; and if reward is to be proportioned to the value of the contribution of each, we may say of the owners of the gifts of nature with St. Jerome: "*Omnis dives iniquus aut heres iniqui.*" It is easy, of course, to mitigate the "ferocity" of this doctrine, and

[1] See note at the end of the chapter.

the modern economist has a less difficult task than the mediæval casuist. The original sins of acquisition have been blotted out by contracts of sale, and even Karl Marx admits the validity of this method of purification. Private ownership of land and natural sources has many compensating advantages; and, as already shown, if the State were to expropriate without compensation the direct gain would probably be less than the indirect loss, and even with compensation the immediate loss would be greater than the future gain. Again, much of what at first sight seems unearned by the unjust owner has been more than earned by his laborious and so far just predecessors. In other cases labour has been devoted to the environment, and the betterment of the property is due to indirect influences of the owners.

But after making all allowances, the central fact remains that we cannot apply to the owners of the gifts of nature, *qua* nature, the economic principle that the producer ought to receive the value of his product, on the ground that otherwise the product will not be forthcoming. The land itself, *i.e.*, its natural and indestructible qualities and the other unexploited resources of a country, remain unaffected by the mode of distribution.

It must be noted, also, that apart from rent considered as unearned, there are other privileges connected with landed and similar property which may lead to a failure of individualism. Appropriation implies exclusiveness, and in this case limitation cannot be overcome by substitution. And in respect of many of the abuses of private ownership the modern socialist may again quote the mediæval saint: "*Dulcissima rerum possessio communis est.*"

How far the unearned increment of land can be beneficially absorbed by taxation for the common good, and how far the abuses of private ownership can be remedied by legal regulations or abolition, are questions that depend for their answer on the general principles of taxation and of legislation.

(2) Profits on capital also fail in many cases to correspond to the assumed simple proportion of reward to effort.[1] The history of the controversies on interest and the corresponding changes in law and public opinion offer the fullest evidence on this point. The first application of the pure theory in the case of loans of money converts all interest into extortion. The arguments no doubt are at first mainly derived from authority, philosophy, or religion, but in the course of time economic considerations come more and more to the front. A distinction is drawn between those forms of interest which may be considered as the fair reward for certain economic services, and those forms which correspond to unfair advantage taken of the necessities of others, or to the accumulations of passive idleness.[2] The result of the series of controversies was to bring more and more cases under the class of just reward; the mere accumulation of capital in the sacrifice of the present, in the trouble of taking thought for the morrow, and in the risk of future loss was seen to involve a species of economic effort analogous to the effort of labour. In the end pure interest came to be regarded as the price necessary to call forth an adequate amount of capital, whether we consider the case of individual producers, or the productive powers of the whole society. The analysis, however, already given[3] shows that such a simple harmony is not always forthcoming. It is easy to see that in many cases individuals obtain for their capital more than is necessary to make it forthcoming or available. A fall in the rate of interest may occur without any check on accumulation. The interest received from capital may indeed be considered as the price paid for its use (including the original provision and maintenance), but all prices depend on demand as well as supply. And it is quite clear that an increase in demand due to a variety of causes may raise the rate of interest (considered as a price), whilst for the time the conditions

[1] *Cf.* Webb, II., pp. 679, 680, 688, 689, on "Monopolies."

[2] *Cf.* Ashley on the *Canon Law and Interest.*

[3] *Cf.* Bk. II., Ch. XIII; Bk. III., Ch. XXII.; Bk. IV., Ch. VI.

of supply are actually more favourable to accumulation. Thus we reach the conclusion that in interest, as in economic rent, there is an "unearned" element. This conclusion is strengthened when we take account further of the fact that the interest resembles economic rent in the differences of yield to different kinds of capital. If some kinds obtain a bare minimum or a marginal return, others obtain much more. This "*quasi*-rent" may be unstable in any particular case, but a large amount is, on the average, always present in any progressive society.[1]

When we consider the element in profits ranked as wages of superintendence or reward for management, the exceptions to the rule founded on the net value of the contribution of each to the national dividend become more numerous and glaring. And, generally, we may say that the mere possession of material capital gives to the managers, on the whole, an advantage in the distribution of the national dividend, over those who have only labour to offer. Thus, relatively, there is an unearned element in the profits of management. Similarly, in many undertakings, the reward for risk is far more than is necessary for insurance.

(3) The consideration of this particular element — profits — leads up to the third great species of income, namely, wages of labour. And here the results of the analysis in the earlier portions of this inquiry make abbreviation not only possible, but conducive to clearness. Capital, as we saw, is immaterial as well as material, and immaterial capital is lodged in human beings, and when they use this capital they call it work or labour. But, as we also saw, the greater part of this immaterial capital is an inheritance from the past — and the greater the degree of skill and the complexity of the education required, so much the more is the possessor indebted to the spirits of the departed. Any man of ordinary intelligence can be trained to acquire ordinary professional skill in any of the

[1] *Cf.* Webb, *Industrial Democracy*, II., p. 680.

arts and sciences, but not one in a thousand has made for himself an addition to the knowledge derived from the past. And thus, taking all the branches of skilled labour, from the lowest to the highest, the larger part of their earnings is an annuity from the dead. The temporary possessors of this great inheritance have no more created it than the landlords have created the land; they cannot even plead that their direct ancestors in blood have given them a title; they have simply taken that part of the knowledge of the race which lay nearest to hand and seemed most profitable; and they have used it for their own ends, without a thought of the givers — as thoughtless as seeds that have fallen on good ground of the labours of the husbandman.[1]

But, passing from this general survey, which reveals a large unearned increment in the wages of every form of labour, we easily see that wages under a system of competition are subject to various inequalities, and that reward fails to be proportioned to effort or desert. Perfect distribution as contemplated under perfect competition could only be realised in a stationary society. As soon as we introduce change, or progress, time is required for readjustment, and until the readjustment is made, some gain and others lose without merit and without fault. If we are heirs of the dead in knowledge, we are heirs also in ignorance; and in the economic world also there are survivals and even reversions.

§ 5. *Résumé.* Thus when we take a dispassionate survey of individualism, considered as the basis of modern industrial societies, we find it is open to criticism both in principle and in detail.

The two supports of the system are freedom and self-interest. But freedom is freedom under the law, and self-interest includes interest in others and in the State. Thus freedom is not merely absence of restraint or the negation of government. On the contrary it may be said

[1] *Cf.* Webb, II., *op. cit.*, p. 831.

that the highest form of government is that which secures the highest form of liberty.

And self-interest may be so interpreted as to mean that higher self, which in every man is supposed to sit in judgment on the doings of his imperfect and misguided self. And again reason may counsel the suppression, by the power of law, of various forms of lower self-interest.

And in each of the great economic departments we find that abuses and failures may arise from unregulated individualism. In consumption, in production, and in distribution, there are cases which seem *primâ facie* to call for remedies on the part of the State. To some extent it is true, the defects and failures of unregulated individualism may be met by voluntary associations, the diversities and benefits of which have been already examined. But those associations, as already indicated, are again liable to lead to further abuses, and to call for further regulations on the part of the State.[1]

Accordingly, it is necessary to examine the methods and limitations of governmental action.

[1] The general relations of voluntary associations to the State have been well treated by Professor Sidgwick, *Elements of Politics*, Ch. XXVIII.

The Net Value of the Contribution of Each.

The standard of the net value of the contribution of each is by no means so simple as may at first sight appear. As so often happens in economics, the difficulties may be evaded by verbal truisms, *e.g.*, by the statement that the net value of the contribution of each can only mean the competition price that is given for it.

Even under the assumption, however, of statical conditions and perfect competition, there are the inequalities created by bequest and inheritance, and by the three great facts, that land (*qua* nature) requires no economic "contribution" for its maintenance, that the supply of labour depends only partly on the price obtained for it, and that even as regards capital the price obtained for its use is only one element in its production.

Again, value in every case depends as necessarily on demand as on supply, and the value of the contribution of each depends as much on the demand for it as on the "efforts and abstinences" of the contributor.

Moreover, under conditions that are statical by certain tests (*e.g.*, number of population, wealth per head, etc.), there are always incessant changes of the constituent elements in demand and supply, and every so-called statical condition (when we leave the cover of hypothesis) is only a temporary equilibrium of complex variable forces.

When we pass definitely to so-called dynamical conditions, the failures in equitable distribution are multiplied and magnified.

Market values of every description oscillate about normal values, which themselves are changing with different degrees of rapidity.

CHAPTER IV.

METHODS AND LIMITATIONS OF GOVERNMENTAL INTERFERENCE.

§ 1. *The General Question.* The failures and defects of individualism may, as indicated, sometimes be met by increasing the reality of freedom, and sometimes by enlarging and extending the ideas of self-interest. And in both of these objects, to some extent, government may assist. The professed object of England, for example, in dealing with inferior and subject races is to render them fit for self-government and awake in them the wants and desires of civilisation. And, as often shown in the course of this work, the most advanced nation has within itself classes which represent the barbarism and stagnation of older types; and here, also, the primary object of government is to raise these classes to a higher level. In either case government can do little if not assisted directly and indirectly by public opinion and private effort. For a long time the effective public opinion of England looked upon India simply as a field for exploitation, and at home the education of the masses was considered as out of place and unfitting the people for their proper station in life. In both cases the change in public opinion has revolutionised our economic policy.

There are, however, other failures of individualism which call for the repression or curtailment of the freedom of individuals, and other defects which the unaided self-interest of individuals is unable to remedy. To meet these defects and failures a *primâ facie* case is presented for governmental interference. Whether or not the case for interference proves to be on the whole advantageous will

depend partly on the kind of interference required, and partly on the limitations, general and particular, imposed on governmental action.

The methods of governmental interference may be divided into two great groups.[1] *First*, the government may regulate the actions of individuals by providing and enforcing a system of positive law; and *secondly*, the government may itself perform certain economic functions.

I proceed to notice some of the principal cases of these methods, taking them as far as possible according to the degree of compulsion involved.

The object in view is not the vain attempt to summarise all the principles of modern systems of law and government, but by the examination of important typical cases to discover some of the principal practical limitations to beneficial governmental action. It is impossible to assign theoretical limits to the action of the State if once the assumption is made of an all-wise and all-powerful government.[2]

§ 2. I. *The Methods of Legal Enactment:* (a) *The Criminal Law.* The government may bring certain kinds of economic abuses — whether of omission or commission — under the *penal* law, and inflict punishments of various degrees of intensity upon the offender. This method of interference is found to vary with different ideas of moral-

[1] *Cf.* Wagner (*Finanzwissenschaft*, I., 64–68). He divides the functions of government into two classes: (1) Rechts- und Machtzweck; (2) Cultur- und Wohlfahrtzweck.

[2] The present German Emperor may be quoted as an extreme believer in State regulation: "When I came to the throne I stepped out of the school of idealism in which my father had brought me up. I was of opinion that it was the duty of the Royal Theatre, above all things, to cultivate idealism in the people; the theatre should be an instrument of the monarch, and, like the school or the university, work for the preservation of the highest spiritual qualities of our noble German Fatherland. The theatre should contribute to the formation of the mind and character, and to the ennobling of our moral perceptions. The theatre is also one of my weapons." — *Speech of the German Emperor on June* 16, 1898.

ity, religion, and civilisation. Examples may be taken from each of the great departments of political economy. In production the employment of persons, and even of animals, under conditions formerly considered natural, or at any rate lawful, is now no longer tolerated in civilised states. The clothier who keeps too many tailors in a room, and the farmer who keeps too many sheep in a field, are both brought under the penal law. Nearly every great industry in modern industrial societies is subject to legal regulations, the offence against which is criminal; and one of the crying demands of the times is to apply similar legislation to home industries.[1] On the other hand, also, methods of production are now permitted which with other times and manners were forbidden. The use of the term "broadcloth" recalls the regulation of Richard I. (1197), which provided that all cloth must be two ells in width. Mediæval authority, as displayed directly by the State or indirectly by corporations and guilds permitted by the State, enforced with penalties minute regulations regarding the quality, weights, and measures of all kinds of wares.[2]

The criminal law of former times was particularly vigorous and rigorous in the various departments of exchange. The mediæval trader spent his life in paying or in evading the penalties of the criminal law. In England, even after the mediæval period, the laws regulating trade in sheep and wool were, as Adam Smith says, written in blood, and what strikes us perhaps even more, they were curiously refined in their cruelty — the penalties ascending from fines through dismemberment[3] up to death itself.

The consumer was not only the object, but sometimes also the subject, of criminal law. People were not allowed to eat, drink, or wear what they liked, but what the law

[1] *Cf.* Webb, *Industrial Democracy*, II., pp. 112, 539.

[2] *Cf.* Schanz, *op. cit.*, Vol. I., p. 586.

[3] *E.g.*, the left hand to be cut off and nailed up in the market-place on a market-day.

liked. Sumptuary laws were numerous and minute. In modern times sumptuary regulations are mainly enforced by custom, fashion, and public opinion, but the criminal law still finds a few victims, especially as regards the consumption of drink and poisons. Sumptuary laws of the mediæval type still prevail as regards certain forms of immaterial wealth and services. The modern State now determines the quality and quantity of primary education, though generally no longer of religion.

Again, as regards the distribution of wealth, we find similar variations in the use of the criminal law. Various modes of acquisition of property, formerly considered natural, have now found a place in the criminal law, whilst others formerly included have been emancipated. A man cannot now lawfully sell his wife or children. Wrecked ships and their cargoes are no longer the natural prey of the wreckers. In the Middle Ages usury was criminal, but the creditor could lawfully make a slave of the debtor — so different was the attitude toward the principal sum and usance of it.

In former times attempts have been made to regulate the rates of wages, penalties being imposed on those who gave or received higher rates. Sometimes minimum rates have also been enforced. At present the efforts of some socialistic reformers are directed toward a vast extension of this principle: they would make it criminal to do certain work at less than certain rates; they contend they are only giving its logical development to the practice of labour combinations. Custom with the force of law as regards those who submit to it, as shown by trade unions (or conversely by associations of masters), is held to furnish a model for the State.

The simplicity of the method of regulation through the criminal law has always made it attractive to legislators and reformers. This method, however, is subject in practice to very effective limitations. Just as the letter of the law varies with the ideas of its framers so also does the enforce-

ment vary with the ideas of its administrators. The greatest agency in the mitigation of criminal statutes in England has undoubtedly been the refusal of juries to convict, and of judges to inflict the penalties; the juries have turned a blind eye to the evidence, and the judges have given them the appearance of reason by legal fictions. It follows that the limits to the power of governmental action by the method of criminal legislation are found in the actual moral sense of the community; the ultimate sanction of the criminal law as regulating economic actions is found in public opinion. Thus, even as regards the obvious and simple system of coercion, the tendencies of the opposing system of natural liberty have to be considered.

(b) *Contracts, Parties to.* The government, without going the length of prohibiting or penalising certain actions, may refuse to enforce the corresponding agreements or promises of performance. In some cases this refusal rests on the legal incapacity of the persons to make the agreement binding.[1] Thus as exceptions to the capacity of natural persons to bind themselves by contract — recognised to a greater or less extent in different systems of law — we have infancy, coverture, and insanity. Sometimes the contracts are void, sometimes only voidable. The positive law of a State also defines the capacity of artificial persons of various kinds, *e.g.*, corporations, partners, companies.

The development of mercantile law is a good illustration of differences in legal capacity. At first merchants were a special class having special privileges and subject to special duties, and the mercantile law so far as it existed was administered in special courts (*e.g.*, the Staple and Piepoudre); in the second period the mercantile law consisted of a body of customs which must be proved as facts, and binding only upon the special class of merchants; in the third period these customs were incorporated in the

[1] *Cf.* Pollock on *Contract*, Ch. II.

general law and made binding on all, whether merchants or not.[1]

To take a particular case: "Bills of Exchange at first were extended only to merchant strangers trafficking with English merchants, and afterward to inland bills between merchants trafficking with one another here in England; and then to all persons trafficking, and subsequently to all persons trafficking or not."

It may be observed that the tendency of legislation in progressive societies has been to abolish the special rights and duties of special classes as regards making and enforcing contracts. For example, a gentleman may now be a trader; so may his wife; and either may become bankrupt separately. On the whole, the law of contract has become less and less a law of classes.

(c) *Contracts, Forms of.* The government may make certain requirements of *form* essential to the enforcement of certain contracts. The contrast between ancient and modern conceptions of contracts as giving rights of action is remarkable and instructive. "According to the modern conception of contract, all agreements which satisfy certain conditions of a general kind are valid contracts and may be sued upon in the absence of any special legislation forbidding particular contracts to be made, or denying validity to them unless made with particular forms."[2] Ancient law, on the other hand, regards only formal contracts. "The fundamental assumption of ancient law (when it has got so far as to recognise contract at all) is that the validity of a contract depends, not upon the substance of the transaction, but upon its form. The rule is that formal contracts only can be sued upon; the want of any part of the formalities is fatal; the fulfilment of them is conclusive."[3]

No better instance could be given of the extension of

[1] Smith's *Mercantile Law*, Vol. I., p. lxxxii.
[2] Pollock, *op. cit.*, p. 119.
[3] Maine's *Ancient Law*, Ch. IX.

the liberty of individuals or the diminution of the sphere of State control. In modern times the enforcement of particular forms is generally either for the purposes of revenue, as in the stamp duties, or of registration — the ultimate object being not restriction, but publicity. The form as such is of no importance; the decisive consideration is the intention of the parties, or the intention of the State.

(d) *Contracts, Substance of.* — The government may, however, make compulsory in contracts certain requirements, not only of form but of substance. In no *contract*, whether dealing with land or any other subject-matter, do the parties express *in extenso* all the rights and obligations involved. Certain provisions are held to be applied by the law, general or special. It may be observed, however, that save in specially excepted cases persons are at liberty to contract themselves out of the particular obligations imposed (otherwise) by statute. And a law which admits of "contracting out" generally remains a counsel of perfection, or at best provides a legal interpretation in case of need.

The cases, however, in which evasion of this kind is not permitted, are in modern states both numerous and important. In the contracts in use in most great industries — in agriculture, mining, manufactures, fisheries, railways, navigation — the legislature has made certain clauses compulsory, and has prohibited the insertion of others.

This method of interference also has its limitations. If the government attempts too much, having regard to the ideas, customs, or prejudices of the times, either by way of compulsion or prohibition, the law is either evaded by the parties affected or nullified by its administrators. The attitude of the public to lawbreakers of this kind is the attitude of Adam Smith to smugglers. "To pretend to have any scruples about buying smuggled goods would in most countries be regarded as one of those pedantic pieces of hypocrisy, which, instead of gaining credit with

anybody, serve only to expose the person who affects to practise them, to the suspicion of being a greater knave than most of his neighbours." As duties became more reasonable smuggling diminished, not only because less profitable, but because less connived at by public opinion.

A law may be nullified, not only by laxity on the part of the executive, but by elasticity of interpretation. Such elasticity is well illustrated by the doctrine of consideration, supposed to be peculiar to the English law of contract.[1] According to the theory of English law, a naked promise (*nudum pactum*), so called because there is nothing assigned why it should be made, is not binding; every contract is supposed to imply a *quid pro quo*, or to be made on account of some valuable consideration. Such is the general principle, and the elasticity may be measured by the practical qualification that the adequacy of the consideration is not material. "The value of all things," said Hobbes, "is measured by the appetite of the contractors, and therefore the just value is that which they be contented to give."[2] The terms "reason" and "conscience," with their derivative adjectives, have been found equally variable and elastic when interpreted in the law courts.

"Customs," says Blackstone, "must be reasonable; or rather, taken negatively, they must not be unreasonable, which is not always to be understood of every unlearned man's reason, but of artificial and legal reason warranted by authority of law."[3]

§ 3. II. *The Methods of Governmental Action* (*a*) The government may itself assume the position of a *monopolist* as regards certain industries or economic services. This case differs from that first noticed, namely, regulation by penalties, in that government not only prohibits others, but itself performs. The freedom of the individual is

[1] The analogies of the Roman *causa* and the French *cause* are partial only. *Cf.* Pollock's *Contract*, Ch. IV.

[2] *Leviathan*, Pt. I., Ch. XV.

[3] *Commentaries*, Introd. Section III., § 1, 1.

equally restricted, but the government takes away the real burden of restriction by itself satisfying the economic want. Thus the post-office has a monopoly of letter-carrying, but most people look on this monopoly as advantageous. Again, the government prohibits private coinage, and again also confers a benefit by the prohibition. The penalties imposed on the infringement of governmental monopolies or patents may range from the most severe of the criminal law to a nominal fine by way of warning to desist.

The assumption of monopolies by governments (with the exceptions noted), and still more the delegation of such powers by patents to individuals, has in the course of time been greatly diminished. In England the constitutional struggle was practically settled under Elizabeth, and the victory was confirmed by the unsuccessful reversion of the Stuarts. An important function of government is the provision of weights and measures. Sometimes the use is compulsory and besides official stamping is necessary; sometimes the use is only optional, and side by side various local and customary standards are in vogue.

(*b*) The government may undertake certain kinds of business, but at the same time allow private enterprise to compete, as, for example, in providing for religious services, or for the conveyance of parcels. In this case — that of governmental management side by side with private enterprise — the only element of competition consists in the coercive levying by taxation (as in Church tithes) of the funds required for carrying on the business, and when the business can be made to pay its own expenses (as with the parcel post) even this element of coercion vanishes.[1] In forming an estimate of cost, however, it is important to take into account all the indirect expenses and supplementary charges.

(*c*) The government may intervene simply to carry out the wishes of the parties concerned (as, for example, in

[1] Sidgwick's *Political Economy*, p. 427.

providing official arbitration). A great part of the law of every State is intended simply to provide, or enforce, settled rules, *e.g.*, the rule of the road on land or sea. What the rule is, is often a matter of indifference, provided only it is fixed and known.

The principle of the law of inheritance (when freedom of bequest is allowed) is in case of intestacy to carry out the supposed wishes of the deceased.

And even when the law of inheritance lays down certain compulsory rules for the division of property after the death of the owner, it may be maintained that the owner, being dead, does not feel the compulsion. Practically, however, the knowledge of the law will, if it is not approved, lead to evasion by gift, *inter vivos*, or the creation of secret trusts.

The laws of bankruptcy are in some respects similar to the laws of compulsory inheritance. The bankrupt is so far civilly dead, and the State lays down the rules for distribution of his estate amongst the creditors. If it be supposed that the creditors wish for a just distribution, the State only carries out their wishes. The laws of bankruptcy also resemble the laws of inheritance in liability to evasion by similar devices.

Special attention may be called to the illustration given by Mill[1] of the method under consideration. There are matters, he says, in which the interference of law is required, not to overrule the judgment of individuals respecting their own interest, but to give effect to that judgment; they being unable to give effect to it except by concert, which concert again cannot be effectual unless it receives validity and sanction from the law. As a particular case, he supposes that a general reduction of the hours of factory labour, from ten to nine, would be for the advantage of the work-people in the sense that they would receive practically the same wages for an hour's less work. We are not concerned now with the

[1] *Political Economy*, Bk. V., Ch. XI., p. 12.

possibilities of the case; increased efficiency might make even eight hours equal to ten, and, on the other hand, in some cases the greater intensity of labour might more than neutralise the benefit to the labourers of the shortening of hours. The only point in question is, that although every individual worker might think that it would be for his interest and for the interests of the whole class to work the shorter time, the plan will not be adopted unless the operatives bind themselves together to abide by it. Agreement alone will not be sufficient unless enforced by opinion with a rigour practically equal to that of the law. Mill's position is, that the immediate interest of every individual would be found in violating the agreement. His argument, in effect, supposes that the workers are in the position of a combination of sellers with a seller's monopoly, and as such the case reduces to that already considered. It is noteworthy that Mill himself does not recommend the proposal; he only uses it as an example of the manner in which classes of persons may need the assistance of the law to give effect to their deliberate collective opinion of their own interests. Up to the present, combinations of men and of masters have received very little legal recognition of this kind. Agreements that are intended to establish monopolies are still considered as in restraint of trade.[1]

(*d*) The government may provide for the erection and maintenance of various public works and institutions, for the provision of which private enterprise is unequal. This is the case which was dealt with very fully by Adam Smith, and in our own time is being pushed to an extreme by socialists. It is a very large case, especially in the guise of municipal trading and poor relief. Considered as a method of governmental interference, here again the only compulsion is in providing the revenue to meet the expenses, a kind of compulsion, however, it may be observed, that becomes intensely disagreeable after a certain

[1] *Cf.* Webb, Vol. II., pp. 713, 714, 531, 533, 853, Appendix.

point has been reached in taxation or other compulsory contributions. The limitations to governmental and municipal work of this kind are found partly in the limits to taxation or other sources of revenue, — if the works and institutions are not self-supporting, — and partly in the limits to public expenditure which must conform to certain general principles.[1]

Before considering the degree and nature of the limits imposed by public finance, it is necessary to notice briefly certain limitations of a general character, which are applicable to all kinds of governmental control. A brief statement ought to suffice, because they are either obvious in themselves, or abundantly proved by the experience of different progressive nations under various conditions. Their importance must not be measured by the paucity of words required to set them forth; the greater the truth the greater the brevity.

§ 4. *General Limitations to Governmental Interference.* The assumption that government is all-wise and all-powerful is so far removed from the truth as to be of little use even for the purposes of abstract reasoning. With the best intentions, governments may ruin their legislation by ignorance and their administration by feebleness. And very frequently the intentions are not the best, if by best we mean that the public interests, with due regard to the future as well as the present, are always dominant. The government, even of the most democratic states, must be formed of persons who are themselves liable to errors of judgment and errors of passion. And to a considerable extent they are supposed to carry out the mandate of their electors. The electors are open to all kinds of persuasion, as well as to the persuasion of justice and reason. Arithmetic, according to a very early text-book, was defined as the art of handling numbers discreetly, and this definition still applies to political arithmetic. The compromise that shall provoke the least effective complaint

[1] See Ch. XV.

seems to be the democratic ideal of practical justice. It is perhaps only in Russia that the fixed ideas of policy are relentlessly pursued independently of the *personnel* of the governors. In the most advanced democracies, laws are still made and unmade in the interests of powerful classes, and sometimes against the interests of considerable minorities. Officials are still appointed for all sorts of reasons apart from merit and efficiency, and are removed, or not removed, on a similar diversity of excuses. The one and sufficient explanation of these shortcomings is, that government is carried on by men, and all men are imperfect. The best system of representation and of constitutional checks makes a very poor compensated balance, and the chronometer of the vessel of the State gains and loses by fits, and only by chance corresponds to the exact siderial time of theory.

It is true — to take the beneficial side of the metaphor — that the imperfections of individuals are to some extent remedied by the accumulated experience of the race, or of the nation, in morality and in wisdom. The laws of any country with a stable government are never repealed, and are seldom amended until a defect is discovered by some glaring abuse. We are, indeed, inclined to rely on the wisdom of the past long after the conditions have changed which made it applicable.

Again, as regards the administrative and the executive departments of government, there are, it is true, customs and traditions which command the respect of the most self-seeking officials. It is as difficult for a judge to give judgment, consciously, against the law or to accept bribes, as for a soldier to act with cowardice in battle or to sell information to the enemy. On the other hand, however, we have examples of the vitality of evil traditions and of unreasoning routine. Governmental interference is always in danger of one horn of a dilemma. If the individual official is left free to exercise his own judgment, there is the danger of caprice or jobbery, or simple foolishness;

if his freedom is curtailed, he must act by routine, and routine is not adapted to the ever changing conditions of modern societies. Though people still pray, like frogs, for the wise despot, they cannot get the wisdom, and they will not accept the despotism.

Next to the imperfections of government due to the imperfections of man, we may notice the limitations imposed by the perfections of time. Time is an even, relentless flow in politics as in physics.

It has generally been recognised that legislation requires deliberation. Deliberation means time, and the time available is limited. If the British Parliament were to sit day and night, continuously, throughout the year, it could only get through a limited amount of legislative work. Accordingly, new measures and emendations of old statutes must be introduced according to their importance. In democratic societies the relative importance is usually determined by the amount of popular support, and the excitation of this support again takes time. The members of the Decimal Association, for example, have been told, for the last fifty years, that they must educate public opinion.

In the making of laws there is more of the proverbial law's delay than in their administration. Even when a sufficient number of people can be induced to shout the same thing at the same time, loud enough for government to hear, the first step is, in general, a commission of inquiry, which is usually intended to give time to allow the clamour to subside; if the report necessitates a bill of some kind there are readings, committees, and reports in two houses to be surmounted; the assent of the crown, or president, is then appended after a respectable interval, and the measure only becomes law at the appointed date. The judges then proceed to interpret the law according to the letter, when it is generally discovered that the framers of the act have used the wrong words to express the intentions of the promoters. A vast amount of liti-

gation is necessary to decide the correct interpretation, and long before the interpretation has become fixed the need for emendation is felt. Emendation, however, again requires time.

Another limitation in lawmaking is found in the endurance of the laws. Laws are now generally held to continue in force until they are definitely repealed. Thus, a law passed under popular excitement caused by temporary circumstances may become a nuisance, even in the nostrils of its promoters, before it has well got into operation. Some laws, like eggs, get addled in a very short time, and others lie dormant, like snakes, and become active when they are least wanted. If the endurance of laws has its advantages — if every generation of reformers can only hope to provide the necessary marginal increments — it has its disadvantages, especially in progressive societies. An eternal law is in one respect, at least, much worse than Bentham's eternal husband; the eternal husband may be got rid of by the act of God, but the eternal law only by the act of man.

Next to the limitations imposed by time, we may notice the limitations on governmental action imposed by the principles of formal justice or uniformity. If a law is passed or the government otherwise interferes in favour of one set of persons, it must be prepared to extend similar action to all similar cases. As far as the letter of the law permits the courts will make the extension, but justice goes beyond the letter of the law. Accordingly, laws beget laws after their kind as naturally as microbes, although they take longer about it. The danger of creating a precedent is nearly as great as that of making laws eternal. The most effective limit to public expenditure and to the assumption of new duties by the State, is the knowledge on the part of the government that they must be prepared to apply the same principle to all similar cases.

Every increase in the power of government and every extension of governmental interference increases the possi-

bility of abuses. Appointments may be given or withdrawn, not on account of fitness or incapacity, but for services to a political party — a kind of abuse abundantly illustrated in the "ancient" history of England and in "yesterday's" history of the United States of America. Power granted for one purpose may be misdirected to other purposes in the interest of the dominant political class; for even with the most effective representative systems the cabinet has very great power. There may be wasteful expenditure under the influence of popular sentiment; the machinery of government may be overburdened with work, and with the nicest adjustment of delegated authority some central control is always necessary. The self-interest of officials may be opposed to the interests of the public, and reward by honours and promotion depends for its effectiveness on the wisdom of selection.

The authoritative prohibition of any course of conduct so far involves a limitation of freedom, and it may well happen that there will be no corresponding extension of freedom in other directions. On the principle of utility, the loss of freedom may too readily be held to be compensated by a gain of happiness in something else and by somebody else. But the loss of freedom tends to starve the development of character, and in the words of Mill, unless the conscience of the individual goes freely with the legal restraint, it partakes either in a great or in a small degree of the degradation of slavery.

It is sometimes supposed that a government of the people by the people or their representatives is altogether different from a despotism; and that under what is called a free government every individual must be free. This vague language will not bear analysis,[1] and the idea which it is supposed to express has been forcibly exposed by Mill. "It is no less important in a

[1] "That the condition of a slave is better under an arbitrary than under a free government is, I believe, supported by the history of all ages and nations." — ADAM SMITH, p. 264.

democratic than in any other government that all tendency on the part of public authorities to stretch their interference and assume a power of any sort that can readily be dispensed with should be regarded with unremitting jealousy. Perhaps this is even more important in a democracy than in any other form of political society; because where public opinion is sovereign, an individual who is oppressed by the sovereign does not, as in most other states of things, find a rival power to which he can appeal for relief or at all events for sympathy."[1] And again: "In some countries the dream of the people is for not being tyrannised over, but in others it is merely for an equal chance to everybody of tyrannising. Unhappily, this last state of the desires is fully as natural to mankind as the former, and in many of the conditions even of civilised humanity is far more largely exemplified."

In concluding this brief exposition of the general limitations on governmental interference, I would again observe that the importance of well-established doctrines is not to be measured by the quantity of words necessary to convey the ideas.

[1] *Political Economy*, Bk. V., Ch. XI., § 3.

CHAPTER V.

THE EXPENSES AND THE REVENUES OF GOVERNMENT.

§ 1. *Revenue to be considered logically before Expense.* The further consideration of the limits of government must be left to jurisprudence and political science — except as regards one of the most effective of these limits, viz., the expense involved. This expense may be simple and obvious, or complex and obscure; but it is in the aggregate very real, and it gives the one impassable barrier to the extension of governmental functions. It is sometimes said that the private person must regulate his expenditure by his income, whilst the State regulates its income by its expenditure.[1] It is true, to take an example from this country, that in practice the Chancellor of the Exchequer adjusts his Budget proposals to his estimates of expenditure, and imposes or remits taxation according as he anticipates a deficit or a surplus; but the limits of expedient taxation, even in the most opulent countries, are soon reached, other sources of revenue are comparatively scanty, and resort to debt means simply the mortgaging of future revenue.

The most fruitful contrast between public revenue and expenditure lies in the fact that theoretically the latter is capable of indefinite increase according to the duties imposed on the State, whilst, even theoretically, the revenue is in comparison limited. There is never any difficulty in getting rid of a surplus[2] — there is always a difficulty in meeting a deficit. There is never any lack of proposals

[1] *Cf.* Bastable's *Public Finance*, p. 42.

[2] There are, however, disadvantages in collecting more revenue than is required.

for increasing State expenditure, and there are always objections to increasing taxes.

And if we take a broad historical survey, we find that one of the most frequent causes of the ruin of nations is excess of public expenditure, whilst there is, perhaps, not a case on record in which the parsimony of the government can be accused of national disaster.

At the present time it is more than ever necessary to insist that the real limit to the expense of governments is to be found in the limitations of revenue. Against the benefits of State control in any form we have to place the cost of government. In some cases the undertaking may pay its own expenses, and in a few, especially if aided by monopoly, may yield a profit. But undertakings that up to the present have been managed by the State without loss are relatively few, and those that yield a real surplus fewer still. How far taxation can be replaced or supplemented by profit will be considered later; it is enough to point out that this source of income is, as a matter of fact, extremely limited under present conditions.[1]

Accordingly, I propose as a question of method to consider the principles of public revenue before dealing with public expenditure.

§ 2. *Practical Reason for the Prior Treatment of Revenue.* Apart from the logical argument of the last section there is a practical reason for the prior treatment of public revenue. Whilst from Adam Smith downward the principal source of modern State revenues, namely, taxation, has been treated with greater scientific elaboration both as regards principles and details than any other department of economics, the investigation of expenditure has been relatively meagre. Adam Smith himself treats expenditure by the method of enumeration of cases; not as he treats revenue, and especially taxation, by the

[1] Under modern conditions, it is better to trust to taxation for the needed revenues, and allow the investment of capital to proceed from the action of individuals. — Bastable's *Public Finance* (2d edition), p. 218.

methods of principles and classification. He lays down, indeed, incidentally important observations; but in the main he is practical rather than scientific, and as a natural consequence his principal conclusions are no longer applicable, owing to the change in social conditions. No one now would endorse his opinion that it is only by means of a well-regulated standing army that a civilised country can be defended, or that the expense of the administration of justice may very properly be defrayed by those who give occasion to this expense, or that it is never possible to invent a more equitable way of maintaining bridges and highways than by tolls, or that the only trades suitable for joint-stock enterprise are banking, insurance, canals, and waterworks, or that those parts of education for the teaching of which there are no public institutions are generally the best taught. His chapters on defence, justice, companies, public works, and education, from which the foregoing opinions have been cited, no doubt contain besides many criticisms and suggestions of permanent value, but compared with his treatment of taxation that of expenditure is altogether unsatisfactory. Adam Smith's canons of taxation have become classical both in precept and in practice. The great financial reforms which culminated in the work of Gladstone may all claim Adam Smith as their father, but he has given no such masterly leading on expenditure. His successors, both in the science and the practice of finance, have shown a corresponding preference for the treatment of revenue, and at the present time expenditure in this country is growing by leaps and bounds by the easy method of treating every case on its own merits.

There is then much need to emphasise the position that just as demand and supply, consumption and production, exports and imports, are correlative and interdependent, so also are public revenue and public expenditure. And just as the development of the theories of demand and consumption led to a corresponding development of the theo-

ries of supply and production, so the development of the theory of public revenue ought to throw light on the theory of expenditure, and just as in practice imports and exports are inextricably blended, so also are public revenues and expenses.

Accordingly, I propose to consider first the well-known and much studied principles and methods of taxation and the shifting and incidence of taxes in the hope that the survey may suggest corresponding lines of inquiry in the less worked field of expenditure. It seems reasonable to expect that the great canons of equality, convenience, certainty, and economy — and other subordinate or consequential rules — should have their analogies in public expenditure, and also that, corresponding to the shifting and incidence of taxes, there should be similar direct and indirect consequences of the various expenses of the State.

CHAPTER VI.

CHARACTER AND DEFINITION OF TAXATION.[1]

§ 1. *The General Characteristics of Taxation.* (*a*) The principles of taxation are well adapted for the application of the historical method. Instead of deriving the modern conception of taxation from the modern conception of sovereignty, we may trace the historical evolution of the principal characteristics. As in other cases, the continuity and variety of English economic history may be trusted to furnish evidence of the principal stages. The most general feature of taxation, that marks it off plainly from other payments (in money, kind, or services) is, that the payment is *compulsory*. A tax is an exaction levied by superior force; it is not the result of charity, persuasion, request, or contract, although these names and sometimes the ideas which they stand for have been used to disguise or modify the original compulsion.

The Romans had carried many economic ideas to stages of development far beyond our modern conceptions (*e.g.*, in the power of capitalism over labour), and they pushed the *compulsion* of taxation to its utmost limit.

Lactantius (300 A.D.), a century before the withdrawal from Britain, describes a scene in a provincial town where all the population of the district was assembled to be taxed. "One heard nothing but the sounds of flogging and of all kinds of torture; the son was forced to inform against the father, the wife against her husband, failing everything else the men were compelled to give evidence

[1] The chapters on taxation were in the press before the publication of the valuable *Memoranda on Imperial and Local Taxes*, issued by the Royal Commission on Local Taxation.

against themselves, and were taxed according to the confessions which they made to escape their torments."[1]

Roman provincial taxation perhaps shows better than any other the element of compulsion pure and simple, undiluted by the appearance of benevolence, persuasion, or contract.

In Saxon times it is usually said that the king lived of his own; he had his own lands and received revenues of the nature of rents. But apart from these *quasi*-private sources of income, which were more or less determined by custom, there were certain general burdens imposed on all lands; viz., military service, and the up-keep of forts and of bridges — the so-called *threefold necessity* (*trinoda necessitas*), from which in the largest grants of land there was no exception.

There were, besides, compulsory payments or burdens of various kinds levied to support the dignity of the sovereign, and the profusion of his household, and generally to pay the expenses of government. The nature of these burdens is best known from the enumeration of exemptions which occur in the land charters. "Moreover, I will free the aforesaid land from all *subjection* in worldly matters, from entertaining the king, bishops, lords, aldermen, bailiffs, keepers of hounds, horses, hawks; from boarding and lodging all those who are called feasting-men; from all services, works, burdens, or inconveniences — what more or less shall I enumerate or say — from all liabilities greater and less known and unknown, let the land remain in all respects free forevermore except these four things which I will now name: expedition against pagan enemies, bridge-building, fort-making or removing."[2]

There were burdens also imposed in connection with thief-catching, and more generally the administration of justice. In all these payments the compulsory character is prominent; they are all also of the nature of taxes on

[1] Quoted in Elton's *Origins*, p. 347.

[2] Earle's *Saxon Land Charters*, p. 85, 6.

land, but they are quite different from customary or contractual rents.

The navy was kept up by similar levies, and every county had to produce its contingent of ships according to its hidage. The danegeld is perhaps the earliest general tax levied in money, 2*s.* per hide being the customary rate. It was collected by the sheriff of the county, and disappears as a separate item merged in the farm of the county in 1163.

After the Norman Conquest the chief part of the revenue was derived from the demesne lands of the crown, but there were besides feudal revenues of various kinds collected from other lands. Such were scutage,[1] aids (*auxilia*), casualties, fines, escheats, in all of which the element of compulsion appears, though disguised under feudal forms. There were, too, the special exactions of purveyance, preëmption, and prisage. Taxes on movables begin with the Saladin tithe (Henry II.). The declaration was in form left to the conscience of the tax-payer (the sanction being excommunication), but if any one was suspected of giving too little, the secular power appointed a jury to assess the amount. The Saladin tithe shows in many respects the rudiments of the modern income-tax.

Graduated poll taxes were imposed in 1379 according to ranks and professions, a duke paying ten marks and an attorney half a mark (six and eight pence) — the rudimentary form of a tax according to faculty.

Benevolences were in origin voluntary grants by rich merchants, but under Henry VII. the refusers were impaled on Morton's fork — the collectors being enjoined to act on the principle that those who lived sparingly must have saved money, whilst those who lived well had clearly enough to spare. Genuine benevolences appear under Elizabeth, but the abuses by the Stuarts led to their abolition by the Petition of Right.[2]

[1] See Bk. II., p. 301.

[2] *Cf.* also origin of poor rates. See above, Bk. II., p. 374.

Too much is made of the names assumed by early forms of taxes — the "gentle terms" *donum* and *auxilium*. There were, indeed, at times a few "gifts" in answer to the "prayers" of the king, but the prayers were in general of the *quibus non contradici* order, and the gifts were like the "precarious" services of servile tenants, or the boon works at the prayer of the lord (*ad precem*), which Seebohm regards as the most distinctive mark of subjection.

The most noteworthy characteristic of mediæval taxes is that, levied first as proportionate and variable rates, they became fixed and customary — as in the case of the tenths and fifteenths, which came to mean a certain aggregate sum.[1]

The principal modifications in this element of compulsion are found in the gradual transfer of the compelling right to the House of Commons, and it may truly be said that the more effective the representation so much the more effective became the compulsion.[2]

(*b*) The compulsion of taxation is, however, really modified when *evasion* is wholly or partially possible. That a tax that can be evaded will be evaded may be illustrated to the extent of an inductive proof. The evasion may, as Professor Seligman remarks, be illegitimate, as in smuggling or false declarations of income, or legitimate, as when the taxed commodity or process or service is avoided. Evasion in the first case is met by various penalties and preventions, and for scientific purposes an evaded tax of this kind is no tax.

Evasion of the second kind, however, is not so complete. It is sometimes said that a tax upon commodities is voluntary, because the consumers may refrain from consumption or resort to other things. Leaving aside the impracticable remedy of the taxation of all possible substitutes, taxes of this kind have always an element of compulsion. It is true that a man may escape the tobacco duty by not

[1] Stubbs, *Constitutional History*, Vol. I., p. 578.
[2] Stubbs, Vol. I., pp. 577, 578; Vol. II., pp. 562, 604.

smoking (as, indeed, he may escape the income tax by not earning sufficient income), but his natural or acquired inclination to smoke is (as shown by the revenue) sufficient to outweigh the pleasure of evasion. Probably no mortal ever gave up smoking or drinking simply to deprive the government of revenue, though many may have stopped or limited their consumption through a rise in price caused by taxation.

The legitimate evasion of taxes on productive processes in some cases leads to improvements and inventions, but in general the necessities of fiscal supervision by stereotyping old methods prevent natural progress. The necessity of taxation is only the stepmother of invention.

(*c*) The objects for which taxes are imposed are coextensive with the objects of public expenditure.

In the course of progress we find that special taxation for special purposes has given way to general taxation for general purposes. The method of assigning particular revenues for particular expenses (*e.g.*, the aids for making the king's son a knight, or marrying his eldest daughter[1]) has generally fallen into decay, although it still survives in local taxation, and there are occasional reversions to this older method. Even in local taxation, however, it has come to be recognised that special rates for special services are, in many ways, uneconomical (*e.g.*, separate rates for schools, poor, roads, police, etc.).

(*d*) Payments, however, may be made to government which are only partially of the nature of taxes. Such, for example, are the *prices* paid by the consumers of commodities sold by the State, and *fees* for services rendered. If the State has a monopoly and fixes prices or fees above what would be the case with natural competition, the extra price or fee is of the nature of a tax. If the State competes with other agencies and charges only competitive rates, this element of direct taxation vanishes. If, as is often the case, the State charges less than cost price (in-

[1] *Cf.* Dowell, *History of Taxation*, I., p. 50.

cluding supplementary costs), the deficit must be met by other taxes, and itself is of the nature of a bounty on consumption.[1]

It is to be observed that in a sense every tax that is levied for the public good may be regarded as providing in its expenditure a *quid pro quo*, and some writers have endeavoured to treat taxation entirely from this point of view. It seems best, however, in the modern State, to apply the term tax to payments which are made primarily for the public service and in which the benefit to the individual is not primarily considered. Thus the income taxpayers cannot connect their payments with any particular advantage. There are other payments in which the public service is predominant, but an element of private advantage may be discovered (*e.g.*, registration fees for marriages). In others the public service becomes of less, and the private of more, concern — as the expense of State railways, partially designed for strategic purposes in time of war, but generally conducted on the lines of private enterprise. Finally, in some payments to the State the main object is the special benefit to the individual, and the public purpose is only incidental, *e.g.*, the parcel post.

(*e*) In modern times the revenues of the State that imitate most nearly voluntary contributions for the public services are those derived from public loans. To meet extraordinary expenditure (as in war) a loan is contracted and subscription to the loan is voluntary. The element of compulsion, however, is only transferred from the present to the future taxpayer. Interest and principal

[1] *Cf.* Seligman, *Essays on Taxation*, p. 303. "At one extreme lie prices which depend upon the relation of the government to some particular industry or individual; at the other extreme lie taxes which depend upon the relation of the government to all industries and all individuals; midway between these extremes lie fees. The essential characteristic of a *fee* is the existence of a measurable special benefit, together with a predominant public purpose; the absence of public purpose makes the payment a *price*; the absence of special benefit makes it a *tax*."

can only be paid out of future taxes. This elementary truth, which has been painfully learned by the central government, is now being rapidly unlearned by the municipalities. It used to be said that an old tax is no tax; we now seem to believe that a future tax is no tax. Loans for productive purposes, redeemable out of the revenues earned over a term of years, are of course on a different footing.

(*f*) Taxes are nominally imposed upon various forms of wealth in the widest sense, but as Professor Bastable[1] often insists, all taxation is really imposed on "persons." This proposition is derivative from the general conception of wealth. One of the essential marks of wealth is appropriation, and taxation is a process of transferring wealth from private individuals to the State. Every public tax diminishes so far the wealth of private individuals. It is of course true that in most cases there is some set-off to the disutility of taxation in the utility of the government, and the utility may exceed the disutility even to the particular payer. Occasionally, also, the imposition of a tax may indirectly benefit certain persons, as in the typical case of protection duties.

It is, however, in a general survey, best to look on taxation as involving in itself a contribution on the part of persons on the compulsion of the State, and to consider separately the benefits of public expenditure, and the economic, constitutional, and other limitations imposed on the exercise of this compelling power.

Professor Bastable's definition of taxation sums up in a convenient form the principal results of the foregoing analyses: "A tax is a *compulsory* contribution of the wealth of a *person*, or body of persons, for the *services*[2] of the *public powers*." If the State is already the owner of all the forms of wealth that it requires, no taxation is

[1] *Op. cit.*, p. 250.

[2] This neutral phrase is preferable to "the common benefit or interest." Seligman, *Essays*, p. 304.

necessary; if it requires more wealth, it must make it (industrial domain) or take it (taxation).

It is not necessary for economic purposes to introduce any difficulties connected with "juristic" persons. In the last resort juristic persons for the purpose of taxation are resolvable into private persons. A tax on the income of a company falls on the separate incomes of the shareholders; taxes on a borough or county (common forms of mediæval taxation) fall on the persons who constitute such corporations.

It may be observed that what is first imposed as a tax tends to become in some cases a form of State ownership. A land-tax regarded as perpetual becomes a rent-charge owned by the State. Thus the expression that an old tax is no tax really means, in this case, that taxation has been merged in State ownership. The real incidence of the original tax is upon the original owner; at the imposition of the tax the value of his property is diminished by the capital value of the tax.[1]

[1] *Cf.* Seligman on "Capitalisation or Amortisation," *Incidence of Taxation*, Bk. II., Ch. IV.

CHAPTER VII.

THE CANONS OF TAXATION — EQUALITY.

§ 1. *Adam Smith's Canons of Taxation — First, Equality.* The treatment of the general principles of taxation may well begin with a critical analysis of Adam Smith's celebrated canons. The truths which they embody may no doubt be set forth with greater logical precision, and with a much greater profusion of technical language; but as stated by him they had sufficient energy to enable a series of great financial reformers [1] to completely revolutionise the British system of taxation; and they have formed the text for the most considerable part of the subsequent commentaries on the general theory.[2]

The first canon, *Equality of Taxation*, stated in full, is found to contain the germs of several distinct theories of what constitutes equal or just or equitable taxation. It is too often quoted in part only, the part omitted being often rediscovered and inserted by way of criticism or supplement. The full statement runs thus: —

"The subjects of every State ought to contribute toward the support of its government, as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the State. The expense of government to the individuals of a great nation is like the expense of management to the joint tenants of a great estate, who

[1] *Cf.* Gladstone's *Financial Statements.*

[2] F. A. Walker (*Political Economy*, p. 513) indeed charged Adam Smith with "feebleness" and "want of grasp" in his treatment of taxation; but a fourth part of the *Wealth of Nations* can never be justly described in such language.

are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation. Every tax, it must be observed once for all, which falls finally upon one only of the three sorts of revenue above mentioned (viz., rent, wages, profits) is necessarily unequal so far as it does not affect the other two. In the following examination of different taxes I shall seldom take much further notice of this sort of inequality, but shall in most cases confine my observations to that inequality which is exercised by a particular tax falling unequally upon that particular sort of private revenue which is affected by it."

§ 2. *Equality and Sovereignty.* To begin with, the use of the phrase "the subjects ought" implies that it is the duty of the subject to contribute, and the right of the sovereign to impose, taxes. Thus the right of taxation may be derived directly from the conception of sovereignty — which again brings to view the *compulsory* character of the contribution.

This doctrine of sovereignty as the basis of taxation finds important illustrations in history. Taxes have been imposed, not for the value of the real revenue they may bring in, nor from any idea of public advantage, nor even for the private advantage of the monarch or other persons in authority, but simply to show to the subjects the right of the sovereign. It was the determination to insist on this barren and malignant sovereign right which led to the retention by the British government of the threepence per pound duty on tea, "that figment of a tax, that peppercorn rent," and of the stamp duties that never paid the cost of collection, — "shearing the wolf," — that lost the British the American colonies.

It is not often, however, especially in modern times, that the *sic volo sic jubeo* is considered sufficient authority for new taxation, and the pure and simple doctrine of sovereignty has been mitigated and complicated by other

political theories. The Americans (and on their side were some of the greatest of English statesmen) opposed to this absolute doctrine the great constitutional rule, that taxation ought to be coincident with *representation* — that only those who shared in the power should be called on to bear the burdens of government, a position heartily approved of by Adam Smith, and made by him the basis of his great scheme of imperial federation.

The whole course of constitutional history is marked by the struggle of the payers of taxes for the control of taxation. And taking a general view, it may be said that the burden of taxation tends to fall most lightly on those who have the greatest political power.[1] The situation in the Transvaal before the war furnished a forcible illustration of this danger.

And the relations subsisting between taxation and representation in the United Kingdom itself show that the adjustment is not yet perfect — if, indeed, perfection of adjustment is possible. Thus, at one end of the social scale many wealthy women and at the other many poor able-bodied men have no share in representation, although our present system of taxation hits both severely. Again, as already explained, taxes fall upon persons, but representation is assigned to localities, and the localities only correspond very roughly to population or taxpaying capacity or both. The present representation of Ireland was partly excused by its author on the ingenious theory that the greater the distance from the seat of government, the greater should be the representation.

The doctrine of sovereignty as the basis of taxation, logically carried out, results in the maxim that a government should impose such taxes as are "most easily assessed and collected" (McCulloch). Just as a general looks to the efficiency of his army as a whole, and is prepared to sacrifice any portion if necessary, so it may be said that the State should not regard the particular interests of

[1] One element of truth in Loria's argument.

individuals, but rather consider the power of the State as a whole and what is most conducive to that power. In times of national peril, when the political existence of the State is concerned, this view seems to meet with general acquiescence. But in ordinary times in the modern State, such a complete sacrifice of the individual is never contemplated, and the sovereign power in taxation is supposed, even on McCulloch's view, to be used in the way "most conducive to the public interests." And since one of the primary public needs is the equitable treatment of individuals, we advance from the general proposition that the subjects ought to contribute to the support of the government, to the important qualification, that they should do so "as nearly as possible in proportion to their respective *abilities*." Adam Smith goes on to explain, that the measure of abilities, in his view, is the revenue enjoyed under the protection of the State, and thus the natural result of his first canon is that taxation should be proportionate to revenue. But this simple interpretation has not always been accepted.

§ 3. *Equality of Sacrifice.* The critical examination of the term "abilities" discloses two very different bases of taxation, which may be described provisionally as *subjective* and *objective*, according as stress is laid on the *inconvenience* or *disutility* involved in the payment of taxes on the one side, or, on the other, on the *ability* or *faculty*[1] of the taxpayer as indicated by his property or income. The development of the subjective basis of taxation leads to the principle of *equality* of *sacrifice*. "Equality of taxation," says Mill, "as a maxim of politics, means apportioning the contribution of each person toward the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his." It is true that Mill — as is his wont — hastens to add that this standard, like other standards of perfection, cannot be completely real-

[1] See below, § 7.

ised. A complete realisation, indeed, would logically end in communism. The sacrifice involved in paying taxes will vary, not only according to how much is taken, but how much is left. And if the real burdens are to be equalised in this way, if, as the result of taxation, all are to be left equally comfortable or uncomfortable, we arrive logically at communism. But, although this extreme position is not reached, the standard of equality of sacrifice (or minimum of disutility[1]), is put forward as the principal ground of various practical modifications of systems of taxation.

§ 4. *A Free Minimum Income.*[2] In the first place it may be urged that if taxation in the case of A leads to a sacrifice of "necessaries," whilst in that of B the sacrifice is only of "superfluities" or "luxuries," the burden of A is infinitely greater. And since we can never establish equality between the infinite and the finite, it follows as a practical maxim that the necessary minimum of income must be exempt altogether.

The distinction, however, between "necessaries" and "luxuries," as Adam Smith pointed out, is difficult to draw, especially in communities advancing in civilisation; and the critical analysis of later writers has increased the number and weight of the difficulties, so that M. Pantaleoni[3] is induced to exclaim that the distinction between necessary and superfluous wants is untenable in nearly every shape in which it has been presented. A want which might be deemed a luxury for one individual may be a necessary for another, and what is true of individuals is true also of social classes, as for example, brain-workers and hand-workers.

[1] *Cf.* Edgworth, "Pure Taxation," Pt. III., *Economic Journal*, December, 1897, for a very able and learned discussion of the sacrifice theory of taxation on utilitarian principles. He prefers to state the ideal as "minimum" sacrifice instead of equal, and this statement seems the more logical on the pure utilitarian theory. On grounds of formal justice the equality of sacrifice may be preferred.

[2] For early examples, see Dowell, *History of Taxation*, Vol. I., p. 75.

[3] *Pure Economics*, p. 54.

The difference also between the expansion and the contraction of wants may be brought forward. An increase of wealth, as, for example, the gradual increase in income obtained by the growth of power and skill, leads to the positive expansion of wants in a determinate order, and the consumption of "superfluities" is increased.

If, thereafter, the income is contracted, as by taxation, a compression of wants, or a curtailment of their satisfaction, must take place, but this *negative* expansion will be different from the previous *positive* expansion.[1] And it is well known that "necessaries" in the shape of food are often curtailed before "superfluities" in the shape of stimulants, or even ornaments. Thus taxes, which are supposed to fall only on "luxuries," may in effect check the consumption of "necessaries" which are left untaxed.

It may be said, however, that the principle of a free minimum income has been partially applied in the United Kingdom: *first*, in the abolition of most taxes on such necessaries as food, clothing, fuel; and *secondly*, in the exemption from direct taxes of incomes below a certain minimum and also of savings in the shape of insurance. But as regards indirect taxation in general, it may be said that a considerable part of the revenue from stimulants (alcohol, tobacco, and tea) is derived from persons whose incomes are below what is generally considered a reasonable minimum for the standard of comfort, and the same thing is true of some forms of direct taxes, *e.g.*, various local rates.

And however plausible the doctrine of a free minimum income may appear, it is always limited by the great practical rule that taxes must be productive.

§ 5. *Equality of Sacrifice and Progressive Taxation.* The principle of equality of sacrifice is also advanced in support of graduated, or progressive, taxation. And at first sight — having regard to the law of diminishing utility — equality of sacrifice seems necessarily to lead to progression. We may suppose that the more money any person

[1] Pantaleoni, *Pure Economics* (translation), p. 53.

has (whether as capital or income) the less is the utility to him of successive increments, and therefore the less the disutilities of decrements caused by taxation. It seems to follow that a greater amount should be taken from the relatively rich, and that a merely equal percentage would not involve equal real sacrifice.

It is, however, one thing to admit that equal percentages do not involve equal real sacrifices, and quite another to formulate any rational scheme of progression merely on the theory of utility and disutility. The judgment of Professor Bastable is in complete accord with the general views of the theory of utility adopted in various portions of this work (*e.g.*, the problem of consumers' rents). "The economic calculus," he writes,[1] "is not at present competent to deal with such comparisons (*e.g.*, the real sacrifices involved in the taxation of different incomes). The weightiest difficulty that the theoretical advocates of progression have to meet is the essentially subjective nature of their standard. The translation into an objective rule of taxation can only be accomplished by the aid of assumptions as to the relations of enjoyment in different classes that must contain a large element of conjecture. The modern developments of the theory of utility fail to supply any definite practical basis on which to frame a scale of progression."

The opinion of Professor Seligman to the same effect is also worthy of citation, especially as on other general grounds he is inclined to support the principle of progression. "This brings us," he writes,[2] "to the very core of the objection to the equal sacrifice theory regarded as the paramount consideration in the construction of any definite rate. The imposition of equal sacrifices on all taxpayers must always remain an ideal impossible of actual realisation. Sacrifice denotes something psychical, some-

[1] *Public Finance*, p. 297.

[2] *Progressive Taxation*, p. 143. This is an excellent critical study of the theory, history, and practice of progressive taxation.

thing psychological. A tax takes away commodities which are something material, something tangible. To ascertain the exact relations between something psychical and something material is impossible. No calculus of pains and pleasures can suffice, for no attempt to reduce the heterogeneous to the homogeneous can ever succeed. But even assuming that this could be done, the case for the advocates of equal sacrifice would not be much better. The sacrifice occasioned by a tax is only one factor in the problem, and may be a minor factor."

I entirely agree with this judgment, and the theoretical and practical importance of the last sentence will receive abundant illustration in the sequel. At the same time, however, it may be admitted that the ideal of equality of sacrifice, although vague and ill-defined, is one of the supports of certain kinds of exemptions and progressions. It may be regarded rather as a canon of criticism of the unjust than as a rule for the instruction of the just. Thus, if it can be shown that certain kinds of taxes necessarily involve very unequal sacrifices, so far such taxes are condemned, or, what comes to the same thing, if they are adopted some kind of compensation should be introduced, either in taxation or in expenditure. In most cases, however, it will be found that the sacrifice involved is only one of the elements to be considered. Taxes on necessaries, for example, may be condemned on this ground, but they are also open to other objections.

The idea of equality of sacrifice, we may conclude, has much more political force than it is entitled to on the grounds of the pure theory of utility. The recent readjustments of the exemptions and remissions in the English income tax were partly justified by their approvers on this ground, and so, also, was the progressive scale of the new succession duties.

§ 6. *Sacrifice and the Sources of Income.* Before leaving the principle of equality of sacrifice it may be worth while to notice one more favourite application. It is

alleged that a tax on income ought to vary according to the source of the income — that, in particular, incomes from realised wealth, *e.g.*, land, should be taxed at a higher rate than incomes from talent, and professional and business capacity — or more generally, that terminable incomes should be taxed at a lower rate than perpetual incomes. In its practical form this discrimination is justified on the particular ground that the professional man is obliged to put aside, by way of insurance for himself or his family, a larger proportion of his terminable income. Thus there is a smaller free income from which to pay the tax, and consequently a greater sacrifice. It may be observed that in the English income tax exemptions on the ground of insurance were reintroduced by Mr. Gladstone in 1853, and have since been continued. In the case of Mr. Gladstone, however, this must be regarded as a political concession, inconsistent with his general treatment of the income tax. No man ever showed more clearly than Mr. Gladstone the inequalities of the income tax, but his general conclusion is this:[1] "There are, it may be, certain distinctions between each of these cases; but what I say is this, — that when you come to define these distinctions and to try to make some broad ground upon which you are to take your stand, and to say here you will be exempt, there you shall pay the exceptional rate of tax, there is not one of the classes that I have mentioned with respect to which you will find it possible to fix as the limit of this intended operation."[2]

The exemption of a part of the income saved for insurance shows very well the difficulties of discrimination. This exemption discriminates between forms of investing savings in favour of one; if a man invests part of his

[1] *Financial Statements*, p. 45.

[2] Space does not admit of further quotation, but the reader may be reminded that Mr. Gladstone's great Budget speeches contain some of the best expositions of financial principles ever made, though this side is apt to be overlooked through the attention given to the practical details and emergencies of the times.

income in higher education for his children, or in buying his house or farm by instalments, or in any of the multitude of other indirect modes of providing for the objects of insurance, he has logically an equal claim to exemption, but practically he obtains none.

§ 7. *The Faculty Theory of Taxation.* The development on the *objective* side of Adam Smith's position, that the subjects ought to contribute in proportion to their *abilities*, leads to the *faculty* theory. "The faculty theory of taxation is very old. The word 'faculty' is the usual one in Latin and French for tax laws and is the general term employed in all the early American laws. For a long time, however, the best practical test of faculty was supposed to be general property. Thus all through the Middle Ages, when local taxes were levied at all they were assessed on general property, on the principle *juxta bonorum facultatem*, or *pro bonorum facultate*."[1] In England the word "ability" is first used in a general statute in the Elizabethan poor law — "according to the *ability* of the parish" — ability being interpreted to mean property. Later on, from meaning property, ability or faculty came to mean income, and Adam Smith explains abilities to mean revenues.

The great merit of the faculty theory is that it substitutes an objective for a subjective standard. It does not look to the feelings of the taxpayer, but to the money value of his taxable capacity. The State takes more from the rich, not because they will feel it less in proportion, but because they have more to give.

But although the faculty standard is objective, it does not follow that it is simple, and what is the proper measure of faculty is still a subject of dispute both in theory and in practice. Historically the rule of simple proportion has been generally adopted. But it is worth observing that this rule was first of all insisted on in order that the property of various privileged classes should not be

[1] Seligman, *op. cit.*, p. 126.

exempt. That subjects should contribute in proportion to their revenues was directed against the privileges of the nobility, clergy, and other favoured classes.

In course of time, however, the method of simple proportion has been attacked with reference to both extremes of the social scale.

§ 8. *Faculty and a Minimum Free Income.* In the first place it has been maintained that the minimum of subsistence ought to be exempted, not as before, on account of the infinite sacrifice involved, but on purely economic grounds. It is argued by Ricardo that if minimum real wages are diminished by taxation, the result will be a diminution of labour until the wages rise by the amount of the tax, so that the real incidence will be on the richer classes, whilst the process of transfer will involve a loss. This argument may be strengthened by the modern position that the consequent degradation of labour would lead to inefficiency, and that the State would lose more indirectly than it gained directly. It may be strengthened also by the position that pauperism would increase, and with pauperism poor rates.

Taxation which diminishes the general efficiency of labour diminishes the whole faculty of the State, and is thereby on the simple faculty theory suicidal.

§ 9. *Faculty and Capital.* It was soon seen, however, that a similar argument might be applied to capital and profits. Taxation which prevents productive capital from being restored and renewed also so far tends to diminish the general faculty of the owners or employers of capital. Accordingly, it has been maintained, that on the faculty theory taxation should only be imposed on the net profits of gross incomes and on the net value of property. That taxation ought, as far as possible, to leave unimpaired the productive powers of the society — including land as well as labour and capital — may be regarded as logically implied in the faculty theory, and is practically one of the most important rules of finance.

But it does not follow that the general rule is best applied by being insisted on in every particular case. To exempt from taxation a certain minimum rate of profits would mean that more must be taken from the higher rates, and thus a premium would be placed on inefficiency, and a check imposed on enterprise.

§ 10. *The British Income Tax.* The British income tax is a good example of the application of the simple faculty theory, the proportion being tempered by degression[1] in incomes below certain specified amounts. In appearance the income tax is a simple tax of so many pence in the pound on all incomes above seven hundred, with various abatements for lower limits. But in reality the income tax is, as Mr. Gladstone long ago described it, not a single tax, but a great code of taxation. What is and is not taxable income — what, for example, is to be put down as profits, and what is to be deducted for repairs — can only be decided by reference to a complex set of judicial decisions, interpreting various complex statutes.

Great as these difficulties are, however, — and they are so great that Mr. Gladstone over and over again declared the income tax was not adapted to become a permanent part of the British tax system, — they are as nothing compared with the difficulties of the sacrifice theory. The faculty theory remains objective.

More recently it has been proposed to abandon the method of proportion at the higher end of the scale, not only to exempt the minimum, but to impose progressive rates above a certain point.

§ 11. *Faculty and Progressive Taxation.* The progressive method may be supported on the faculty theory on the ground that "the facility of increasing production often grows in more than arithmetical proportion. The rich man may be said to be subject in some sense to the law of increasing returns."[2] Money makes money. The

[1] *Cf.* Bastable, p. 299.

[2] Seligman, p. 191.

objections usually advanced are; (*a*) that any scale of progression will be *arbitrary*.[1] This objection, however, appears to me purely formal. It is equally applicable to every part of the whole tax system compared with the whole, as, for example, the relative proportion of direct and indirect taxes, and again, in either group of the relative amounts assigned to particular kinds of taxes. (*b*) It is alleged that the motives for evasion are stronger, and the means of prevention less effective, in the case of a progressive than of a proportional tax. As regards motives, it would rather seem that where the burden is less felt, the desire of evasion would also be less felt. As regards the means of prevention, it is urged that a progressive rate could not be levied at the source of the income with the same ease as a proportional rate. But, although the personal method of declaration must be applied to the surplus, it will still be as effective as in other cases, and the chance of evasion may be allowed for. Similarly, the objection that progressive succession duties will lead to gifts *inter vivos* applies only to the donations affected, and it may be said that gifts *inter vivos* are more likely to be in the public interest than purely family successions.

(*c*) It is said that these will be a check to accumulation and an encouragement to the exportation of capital. Both of these objections, however, apply to all taxes on capital, and in a society in which accumulation is going on at an increasing rate they are not of much force. Of greater weight, it seems to me, is the objection that progressive taxation tends to act as a differential tax on production on a large scale, and may thus hinder the natural employment of capital. The force of this objection, however, depends entirely on the degree of the taxation and the rate of progression.

(*d*) It is said that the productiveness of a progressive tax on income is not as great as is popularly supposed.

[1] Bastable, p. 292.

The obvious answer is, that if on balance — after allowing for indirect and direct losses — there is any appreciable yield, it so far enables relief to be given in another direction where the injury to faculty (not to recur to the real burden) is greater.

On the whole, I am inclined to think that *on the faculty theory* a moderate rate of progression might be advantageous as regards income, as it has proved to be as regards succession duties. "It is not very unreasonable," says Adam Smith, "that the rich should contribute to the public expense not only in proportion to their revenues, but something more than in that proportion."[1]

§ 12. *Faculty and Sources of Income.* The application, however, of the simple method of proportion to income or property may be further modified on the faculty theory. We may consider (as before on the sacrifice basis) not only the amounts of the wealth, but the sources of such wealth. From the national point of view, the best system on the faculty theory is that which least impairs the productive powers of the society. As we have already seen in considering the economic bases of property and the principles of the distribution of wealth, the adjustment of reward to effort is the great stimulus to labour, accumulation, and generally to industrial activity. Heavy taxation has been proved over and over again to be the greatest check to industrial development. But there is a large class of incomes which, compared with ordinary profits and wages, may be classed as "unearned," and it may be argued that taxation of these incomes does not impose a corresponding check on industry. "Both ground-rents and the ordinary rent of land,"[2] says Adam Smith in a path-breaking passage, "are a species of revenue which the owner in many cases enjoys without any care or attention of his own; though a part of this revenue be taken from him in order to defray the expenses of the State, no discouragement will thereby be given to any sort

[1] p. 379, McCulloch. [2] Nicholson's edition, p. 315, 6.

of industry. The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground-rents and the ordinary rent of land are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them. Ground-rents seem, in this respect, a more proper subject of peculiar taxation than even the ordinary rent of land. The ordinary rent of land is in many cases owing, partly at least, to the attention and good management of the landlord. A very heavy tax might discourage too much this attention and good management. Ground-rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign, which by protecting the industry either of the whole people or of the inhabitants of some particular place, enables them to pay so much more than its real value for the ground which they build their houses upon. Nothing can be more reasonable than that a fund which owes its existence to the good government of the State should be taxed peculiarly, or should contribute something more than the greater part of other funds toward the support of that government." Later on, Adam Smith applies the principle still further, and argues that the gains of monopolists, whenever they can be come at, are certainly, of all subjects, the most proper for taxation.[1] This is indeed an *obiter dictum*, but may be referred back to the position that all monopolies are creatures of government by grant or sufferance, and that in the profits of monopolies there is generally a large unearned element. A similar argument may be applied to "*conjunctur*" profits, and those portions of *quasi*-rents that may be classed as "unearned."

The consideration of the expediency or the justice of adopting "peculiar" taxation of this kind may be deferred to a later stage.[2]

§ 13. *Faculty and Savings.* Other modifications of the

[1] Nicholson's edition, p. 378.

[2] See below, Ch. XI., § 5.

faculty theory are found in the proposal that temporary incomes should be taxed less than permanent. So far as this proposal depends simply on *time*, *i.e.*, the duration of the income, it involves a fallacy. If the temporary income is less durable, so also is the taxation thereof. Sometimes the extreme position is taken up (as in one place by Mill) that only expenditure and not savings ought to be taxed. This argument rests partly on the fallacy of double taxation — which was subtle enough to deceive Mill, but happily no longer requires refutation[1] — and partly on the assumption that saving is a secretory process which builds up the social system, expenditure an excretory process that wastes it. I need not pursue further this tempting physiological analogy, nor again diverge into a discussion of the social functions of saving and spending. It is more to the present purpose to observe that the modifications of the faculty theory in the directions just examined and the proposals for peculiar (*i.e.*, extra-proportionate) taxes lead up to the consideration of another general basis of taxation — that, namely, which may be termed the *benefit* or *social dividend* theory.

§ 14. *The Benefit Theory of Taxation.* According to this theory taxes ought to be considered as payments for *valuable services rendered* by the State to individuals. The essence of this doctrine may be found in Adam Smith's reference to the revenues which are enjoyed under the *protection* of the State, and in his comparison of the individuals of a great nation to the joint tenants of a great estate. It is easy to show, as Mill does, that if protection is taken in its narrowest signification, as a matter of fact the poor need more protection than the rich, and as a consequence, that the *protection* theory would lead to *regressive* taxation. But Adam Smith's own application of the theory, already noted, to the case of ground-rents and monopolies, shows that such a narrow interpretation is not justifiable, and has, certainly, never

[1] See Bastable's *Public Finance*, p. 305.

been appealed to in practice. The theory in its wider meaning implies that the State is a partner in all individual undertakings by providing, not only for security, but for many other elements necessary and advantageous to their development. And as one of the members of every industrial partnership the State is entitled to a share in the profits. If, however, the theory even in this extended form is advanced as the only just basis of taxation, and if taxes are to be levied only and exactly in proportion to the benefits received, the foundation is obviously too narrow for the edifice. It might serve to exercise the architectural imagination of the pure theorist, but would be altogether unworkable in practice.

But the theory has a particular application in those cases in which the services rendered by the State and the benefits accruing to individuals are easily discovered and estimated, and it is of special importance in local finance. The terms "fees" and "prices" are, however, better adapted to the payments made for special services rendered by the State, and the principles are considered more properly in connection with State expenditure and municipal trading. It is misleading to attempt to connect the payment of taxes by individuals with their supposed share in the general benefits of government; it is better rather to emphasise the distinction between "fees" paid for particular services and taxes levied for general purposes.[1]

§ 15. *The Social Function of Taxation.* The benefit theory of taxation is closely allied with another theory, according to which the kinds and amounts of revenues derived from taxation should be adjusted according to their *social and political* effects. It is no doubt true that in all cases the indirect consequences of taxation are important, and in some cases the provision of revenue may be considered as of secondary importance. Protective duties, for example, so far as purely protective are non-produc-

[1] *Cf.* Seligman, *Essays on Taxation*, p. 303.

tive of revenue. In the same way, the heavy duties on stimulants are often justified, not because (in fact) they yield a large revenue, but because (in theory) they check consumption. Adam Smith remarks that "it has been, for some time past, the policy of Great Britain to discourage the consumption of spirituous liquors on account of their supposed tendency to ruin the health and corrupt the morals of the common people." The same Adam Smith, however, also shrewdly observes that "if we consult experience the cheapness of wine seems to be a cause not of drunkenness but of sobriety.[1] The inhabitants of the wine countries are, in general, the soberest people in Europe. People are seldom guilty of excess in what is their daily fare. A gentleman drunk with ale has scarce ever been seen among us." Accordingly, he concludes that if the duties on foreign wines and the excises upon malt, beer, and ale were to be taken away all at once, it might indeed occasion in Great Britain a "pretty general and temporary drunkenness" among the middling and inferior ranks of people, but would probably be soon followed by a permanent and almost universal sobriety.

Another of the social aims supposed to be specially adapted for attainment by taxation is the more equal distribution of the national wealth. Mill's peculiar proposals regarding the laws of bequest and inheritance were mainly justified by him on this ground, and in effect his proposal logically leads to succession duties, carried to the extreme limits imposed by the conditions affecting accumulation and evasion.

It is not necessary to revert to the general consideration of the communistic ideal. It may suffice here, to observe that the same end may be promoted by the adjustment of expenditure, and it would seem better economy to aim directly at improving the condition of the poorer classes than to attempt to make the poor less poor, simply by making the rich less rich. Heavy progressive

[1] *Op. cit.*, p. 200.

duties which lopped away all incomes above a certain amount would soon become unproductive, whilst a wealthy nation, by general taxes, may provide for an increasing number of social needs.

The equalisation of incomes by taxation is very like the social levelling by death.

On the general question the summary of Professor Bastable seems temperate and well founded.[1] "The results of financial experience are of some value in respect to the use of taxation for other than fiscal purposes. The taxing power has often been employed to encourage industry, to improve taste, to benefit health, or to elevate morals, but in none of these applications has the desired success been obtained. There is, therefore, a presumption against its use in remedying the inequalities of wealth. Its definite and universally recognised function is the supply of adequate funds for the public services. To mix up with one very important object another different, and perhaps incompatible one, is to run the risk of failing in both. . . . If the socialistic *régime* is the goal to be aimed at, there are more direct and more effective modes open than the manipulation of taxation."

There are, in brief, the multitudinous methods of legal enactment and of public expenditure.

§ 16. *The Principle of Formal Justice.* Finally, whatever basis of taxation be adopted, the principle of *formal justice* noticed in the conclusion of Adam Smith's first canon must be considered. If it is just — for any of the reasons usually assigned — to tax A, it is just to tax B under precisely similar circumstances. Thus stated, the principle seems purely abstract and as empty as any other pure form of thought. On the analogy, however, of the principle of equality before the law and similar political principles, it is easy to give it a material content. For fiscal purposes we may substitute the term "practically" — for precisely — similar. Thus, the possible extension of

[1] p. 313.

a tax to all similar cases (or conversely, the remission) may suffice to destroy the *primâ facie* reasonableness of extension (or remission). We shall see later that the same principle is of vital importance in the correlative department of expenditure, and as we have already seen, it is one of the general limitations to governmental action.

This long, but necessary, examination of the meanings of "equality of taxation" may be concluded with the observation that, as a matter of fact, in every civilised community a highly complex system of taxation is adopted, which is, to a large extent, the result of far-reaching historical influences. The universal difficulty in financial reform is the necessity of providing for immediate expenses. It is generally more popular and easy to continue an old tax with its old abuses, than to institute a new tax with its new benefits. There is a widespread and well-founded opinion that all taxes are evil, and it is difficult to carry any financial reform which involves an immediate loss of revenue and the consequent imposition of new burdens, — although alleged to be temporary. The great reforms effected by Sir Robert Peel and Mr. Gladstone through the imposition of the "temporary" income tax were only possible through the tremendous power concentrated in the political genius of their personalities.

CHAPTER VIII.

THE CANONS OF TAXATION (*continued*).

§ 1. *Adam Smith's Second Canon of Taxation — Certainty.* The three remaining canons of Adam Smith give more particular rules for the attainment of equality and productivity in the whole tax system by reference to the methods employed in the imposition and collection of particular taxes. They are, for the most part, comparatively simple and require but little explanation, although the course of history and the present actual condition of different nations show that they are only carried into effect with considerable difficulty.

The *second* — the canon of *certainty* — lays down that: "The time of payment, the manner of payment, the quantity to be paid, ought to be clear and plain to the contributor and to every other person." The positive elements in this maxim bring out the importance of definiteness and publicity. On the negative side it is aimed against the arbitrary exactions of the sovereign power and the jobbery and abuses of its officials. Apart from the general social and political evils connected with the exercise of arbitrary power, uncertainty of taxation involves an economic waste. *Ad valorem* duties on imports are open to the objection that the importer is never certain in what grade his commodity will be classed for taxation. The method of declaration which applies to a large part of the returns to the British income tax fails in publicity, and the failure in publicity leads to irregularity and uncertainty.

§ 2. *The Third Canon — Convenience.* The canon of convenience enjoins that "Every tax ought to be levied

at the time and in the manner in which it is most likely to be convenient for the contributor to pay it." It is justified, not only on the general grounds of good government, but also on the special economic ground of the greater productiveness of taxes which satisfy this condition. It is found possible to raise a considerable revenue by taxes on commodities, the payments of which are made by the consumers in insensible portions, when it would be impossible to collect the same amount by direct taxation at comparatively long intervals.

§ 3. *The Fourth Canon — Economy.* This canon has for its governing principle that: "Every tax ought so to be contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State." Taxes may break this rule by requiring a large number of officials for their collection, by involving restraints on trade and production, by encouraging evasion, or by causing unnecessary vexation, for "though vexation is not strictly speaking expense, it is certainly equivalent to the expense at which a man would be willing to redeem himself from it."

§ 4. *Other Rules of Taxation.* To these general canons of Adam Smith the following may be added, most of which are implied in different passages of his treatment of taxation, but have been expanded more fully and emphasised by subsequent writers.[1] (*a*) A given amount of revenue is as a rule more conveniently raised, both from the point of view of the government and its subjects, from a small number of very productive taxes than from a larger number with smaller returns per unit.[2] This was one of the principal reforms advocated by Adam Smith with reference to the British customs duties, and was carried into effect by Sir Robert Peel and his successors. The inextricable confusion of the customs duties levied before

[1] *Cf.* Helferich in Schönberg's *Handbuch* for convenient summary.

[2] An extreme case is the single tax ; *cf.* Bastable, *op. cit.*, p. 319, 20.

these reforms, and the unproductive character of most of them, can only be realised by reference to the details of the history of taxation.[1] It is thought, however, by some financiers of the first rank that this concentration has been carried too far in the United Kingdom, and that the burden of indirect taxation would be less felt if spread over a larger number of commodities. The process of simplification and concentration has also been partially applied to the direct taxes, but in many cases (especially in local taxation) the rule is still more honoured in the breach than in the observance.

(*b*) A good system of taxation ought to provide for a self-acting increase in the revenue in proportion as wealth and population and the consequent demands of governmental expenditure increase. Thus a land-tax of a fixed amount per acre is in general much less advantageous than a proportionate amount of rental. The income tax and taxes on stimulants have the advantage of showing an increasing return with increasing wealth and numbers.

(*c*) Those taxes are best which yield a steady calculable return. The calculations of the estimates for the Budget in the United Kingdom are now made with extraordinary exactness. The reason for this rule is found in the advantage of adjusting normal expenditure to normal revenue.

(*d*) Those taxes are to be preferred which in case of need can be most conveniently increased in amount without involving new machinery or increased expenditure in collection, *e.g.*, the income tax in fact, and in theory the tax on beer.

(*e*) At the same time in the progress of society it may be expedient to abandon old sources of revenue and to adopt new methods under the new conditions, notwithstanding the disadvantages which *ceteris paribus* attach to all changes in taxation.

[1] *Cf.* Dowell's *History of Taxation in England;* Sydney Buxton, *Finance and Politics*, 1783–1885.

Finally it may be observed that if, as is almost inevitable, there is, as regards any proposed tax, a conflict of advantages and disadvantages as tested by the canons and rules of taxation, the less important rule must be surrendered, the importance being judged according to circumstances. Adam Smith, for example, states emphatically that the experience of all nations shows that a very considerable degree of inequality is not near so great an evil as a small degree of uncertainty. Again, productiveness covers a multitude of sins, and as Professor Bastable remarks, "The successful administration of the State is the final object, and therefore convenience or even equity may have to yield to productiveness."

It is also important to point out explicitly that all the rules must be applied to a system of taxation as a whole. There are, of course, some taxes which would be bad in any conceivable system of taxation; but, in most cases, a criticism of a particular tax is of little value unless consideration is also given to the other taxes with which it is combined.[1]

§ 5. *Transition to the Incidence of Taxation and the Classification of Taxes.* In considering the effects of the system of taxation and of its component parts, it is always necessary to take into account the real incidence. It is of no avail to set up an ideal standard of equality, if the actual methods adopted, though nominally and ostensibly in accordance with the standard, lead to inequality. No part of the theory or practice of taxation has given rise to so much controversy as the real incidence of various particular taxes. The "shifting" of taxes may lead not only to inequalities, but to injurious effects on the productive powers of the society as a whole.

A good example of the necessity of considering the real incidence of taxation is found in the common saying that if the foreigner taxes our goods we ought to tax his goods.

[1] Mr. Gladstone's *Financial Statements* furnish abundant illustrations of the importance of this consideration.

It is quite possible — both in theory and practice — that retaliation of this kind will only increase the injury to ourselves. Taxes, as already explained, fall not on things but on persons; and if taxes on foreign goods are really paid, not by the foreign producer, but by the home consumer, the retaliation is wholly nugatory. It is, however, also possible that such taxes may really fall wholly or partially on the foreigner, and even if they do not, the retaliation may be expedient on other fiscal or political grounds. The real incidence of export and import duties and the estimate of their effects on foreign and domestic trade constitute a group of the most difficult problems in economics.

It will be found convenient, however, to consider briefly the classification of taxes before proceeding to the question of incidence.

CHAPTER IX.

THE CLASSIFICATION OF TAXATION.

§ 1. *Difficulties of Classification in Taxation.* "In taxation there are almost as many classifications as writers," says one of the latest and ablest surveyors[1] of the field of public finance. The reasons are not far to seek. Taxation may be treated for different purposes from different points of view, and the classification will vary accordingly. For theoretical purposes the plan adopted by Adam Smith seems still the most logical, and, at any rate as a preliminary, the most useful.

The primary object of taxation is to take portions of the revenues or the property of private persons for the service of the State. Since what is taken by compulsion by the State might have been consumed as revenue, we may say logically that all taxes are paid out of revenue, though — as in the case of succession duties — sometimes the inclusion under revenue may be only formal, and taxes may be paid out of capital.

Adam Smith takes as the basis of classification the three great species of income, and examines in order taxes upon rents, profits, and wages. We may bring his treatment in line with the subsequent development of economic theory by resolving these general classes into more precisely differentiated species, *e.g.*, by taking account of pure economic rent and *quasi*-rent and of the searching analyses of profits and wages.

It may be objected, however, that one result of modern analysis is to show that even for general theory wages, profits, and rents cannot be sharply defined, and that in

[1] Professor C. Plehn, *Introduction to Public Finance.*

the actual tax systems to which the theories must be ultimately applicable — if they are not imaginary hypotheses — we never find taxes arranged on this simple tri-partite plan, and still less with the *quasi*-technical subdivisions.

The British income tax, it is true, divides incomes into classes in which rents of "lands," profits on "capital," and wages of "labour" find a place; but there is no separate schedule for pure economic rent or *quasi*-rents or net interest or wages of superintendence, and the wages of other labour is only represented by the salaries of those not commonly called labourers, *e.g.*, various officials.

The incomes of individuals are also often derived from different sources, and, as in the British income tax, the same individual may return his income under different schedules.

These objections, however, seem to me to be purely formal. The revenues of individuals can be classified and subdivided according to important marks of difference, and seeing that taxes must be paid out of these revenues, it is important to trace the consequences, especially as regards "shifting" or real incidence. Logically it makes no difference that the same person may have different kinds of income or that the official schedules may apply the same name to different economic categories. The business of all science is to discover differences in similars and similars in differences.

A second more important objection to the theoretical classification proposed is found in the fact that actual taxes are not levied only in the direct manner at first assumed, but are imposed upon some persons with the intention and expectation that they will be transferred to others. Taxes are also imposed nominally upon "objects" or things, although their ultimate burden must lie upon "subjects" or persons.

There are, for example, taxes upon consumable commodities, including various materials of production — *e.g.*, the large classes of customs and excise duties — and al-

though these taxes must be ultimately paid out of revenues of some kind, they certainly cannot be divided according to the revenues on which they fall. Adam Smith ingeniously makes a separate class of those taxes which are intended to fall indifferently upon each of the three great species of revenue, and then considers under this heading a number of particular taxes of various kinds.

The logical connection, however, of this class with revenue as the basis of classification is of the slightest. The ultimate incidence is in many cases said to be on the consumer, and no further reference is made to the source or kind of the consumer's revenue.

It seems best then to supplement the theoretical classification according to revenue by the historical or empirical enumeration of the most important concrete forms of taxation. The use of the terms historical, empirical, and concrete suggests that this enumeration will not lend itself to any simple method of classification. And it will be found that when once the idea of ultimate incidence on economic revenues is abandoned, taxes may be grouped or classified according to very different characteristics. Some of the most important of these classes and distinctions are explained in the following section.

§ 2. *Direct and Indirect Taxes.* One of the oldest and most important divisions of taxes is into "direct" and "indirect." A direct tax is defined by Mill — and this is the definition generally accepted — as a tax demanded from the very persons who it is intended or desired should pay it. An indirect tax is demanded from one person in the expectation and intention that he should be able to transfer it to another.

In general this distinction is clear enough, but, as usual in economic definitions, there is a wide debatable margin. Taxes on various classes of income, *e.g.*, dividends from public companies, interest on loans national and local, may be demanded from the companies that earn the dividends or the banks that pay the interests on the debts. Logi-

cally, however, the companies and banks may be regarded as financial agents of the government, as is further shown by the fact that the tax may be recovered by those who are exempt on a graduated scale.

Similarly taxes on the owners of property — *e.g.*, lands and houses — may be in the first place collected from the occupier who in turn deducts it from the rent. Again, taxes on wages (*e.g.*, to meet the labourers' share in compulsory insurance) may be taken in the first place from the masters.

But apart from this formal question of agency there are real difficulties in this interpretation of direct taxation. Even when direct taxes (so-called) are demanded from one set of people with the expectation and intention that they alone will bear the burden, it frequently happens that this expectation is not realised, and part of the tax is transferred to other classes or persons. Thus a tax on wages, even if taken from the labourers directly, might in some cases lead to a fall in profits or to an increase in the price of the commodity to the consumer.

And apart from the actual burden of the tax itself there are always indirect consequences and unseen effects which are often of more importance than the original tax.

These considerations are of still greater weight when applied to the converse case of indirect taxes. The typical example is a tax on a commodity which is intended to be transferred to the consumer. Whether or not the tax can be wholly transferred depends upon a number of conditions, *e.g.*, demand and supply, competition and monopoly, mobility of labour and capital, and other variable elements. And in estimating the whole burden of the tax we have to consider the restraints imposed on the development of the taxed industry which may prejudicially affect both profits and wages.

It might then be maintained that the distinction should turn, not on the intention of the government, but on the actual fact of transference — those taxes only being classed

as indirect which are actually transferred. The adoption of this plan, however, would make it necessary to place incidence before classification, which in a treatment of principles is obviously undesirable.

Another interpretation[1] of the terms "direct" and "indirect" is to confine the term "direct" to taxes taken from income or capital directly assessed, not indirectly estimated through expenditure. Non-transferable taxes on expenditure (*e.g.*, on the employer of men-servants) would be direct according to the first definition, but not according to the second — the tax is indeed paid directly by the employer, and is probably never transferred even partially, but it cannot be regarded as an income tax.

This distinction may be expressed more generally thus: "Direct imposts are those levied on wealth in its immediate manifestations, persons, incomes, estates; indirect, those levied on the secondary manifestations of the wealth of the contributors, *e.g.*, transfers and consumption."[2]

This mode of stating the distinction naturally leads up to the definition which rests upon administrative or official practice. Direct taxes are those levied on permanent and recurring occasions, and are assessed according to some list or roll of persons (*cadastre*). The taxpayer is regarded as definitely and permanently ascript to the treasury.

Indirect taxes, on the other hand, are levied according to a tariff on the occurrence of transactions and events which are not previously ascertainable as regards particular persons. The amount of a direct tax assessed in this way is certain and regular, whilst an indirect tax is uncertain and irregular, as regards individuals. Thus the income tax is direct on this view, but succession duties are indirect, it being uncertain when they will be paid and by whom, seeing that all taxes are payable by persons, and the dead can be taxed no more, and their heirs are uncertain.

§ 3. *Other Distinctions.* In respect to the mode of

[1] *E.g.*, McCulloch. [2] Cossa's *Taxation*, p. 66.

assessment, the amount to be obtained may be first fixed and a rate adjusted accordingly so that the amount is just obtained from the contributors. The "rates" of British local finance are ostensibly of this character, and the old fifteenths and tenths came to be definite amounts for towns and counties, which were apportioned amongst the taxpayers. Professor Bastable accordingly calls these taxes "apportioned." But instead of the amount to be raised being fixed and apportioned the charge per unit may be fixed, the total yield being uncertain. Thus whilst the local authorities impose a rate to raise a certain sum for the school-boards, the Chancellor of the Exchequer lays a penny on the income tax, the yield being only estimated. Professor Bastable calls these taxes "rated," which term, however, has the disadvantage of suggesting local rates which are "apportioned." A better term to be contrasted with apportioned would be simply "non-apportioned," or if apportioned taxes are styled "rates" in accordance with practice, we may adopt the popular division of rates and taxes — the rates being apportioned, the taxes not.[1]

Taxes may be payable in kind (*e.g.*, tithes of produce, prisage of wines, military services) or in money. The transition to payment in money is of historical importance, the principal survival of the other class being conscription.

Taxes are classed as "real" and "personal." Real taxes (although paid by persons ultimately) are those levied on certain objects without regard to the particular faculty of the owner or consumer, *e.g.*, specific duties on imports, or taxes on land without allowances for mortgages. Personal taxes are levied directly on persons (*e.g.*, capitation taxes according to rank, business, or profession), or according to their supposed economic conditions or faculty as indicated by their income or property.

Taxes on revenue and taxes on capital are nominally distinct, but as already noted the latter may be merged under the former.

[1] *Cf.* Cannan, *History of Local Rates in England*, p. 4.

Finally, I may quote the useful summary of Professor Bastable, which combines the general theoretical basis of Adam Smith with the enumeration of the principal forms of taxes on the empirical or historical method.

"The main division is into 'primary' and 'secondary.' The primary taxes are those on land, on business and capital, on persons, and on labourers' earnings. The combination of these primary forms gives us the general income and property taxes which come next in order. Passing to the secondary forms of taxation, we find (1) taxes on commodities including all excises and customs; (2) taxes on communications and transport; (3) the remaining taxes on commerce and legal transactions; (4) taxes on the transfer of property; (5) succession duties."

CHAPTER X.

INCIDENCE OF TAXATION — GENERAL PRINCIPLES.

§ 1. *Importance of the Study of Incidence.* The incidence of taxation is a subject of great importance and difficulty, both theoretically and practically. Even as regards direct taxation, it may well happen that, although the person who first pays the tax is the person who bears the burden in the sense intended by the government, yet indirectly, in ways not contemplated by the government, part of the original burden and part also of the additional burden incidentally created may be shifted to others.

Suppose, for example, that the State imposes a tax upon houses, and that it divides the amount payable in definite proportions between the owner and the occupier, and duly collects these proportions from each separately. Here we have apparently the simplest examples of direct taxation possible.

But an examination of the incidence of the house-tax shows that under certain conditions[1] part (or even the whole) of the nominal payment of the occupier may be shifted to the owner — that is to say, in consequence of the tax the occupier may pay so much less rent, whilst under other conditions, part (or even the whole) of the nominal payment of the owner may be shifted to the occupier by a rise in rent. And apart from this redistribution of the house-tax itself between owner and occupier, there may be indirect effects upon agricultural rents and upon particular classes of profits.

[1] *Cf.* Edgeworth's "Pure Theory of Taxation" for full statement of incidence of house-tax under various conditions, *Economic Journal*, March, 1897.

Again, nothing could appear more direct and simple than the incidence of succession duties ; the former owner of the property is dead, and the State takes a part to itself.

But if it is known that after death the State will take a large share, a stimulus is at once given to evasion, *e.g.*, through the checks to accumulation, the encouragement of consumption, and gifts *inter vivos*. It is thus possible that heavy succession duties might prejudicially affect the wages of labour. And there can be no doubt that historically, in countries that are burdened with excessive taxes, apart from the share supposed to fall on labour, there is an additional burden due to the contraction of enterprise and accumulation.

If, however, in the case of taxes nominally direct, we have to penetrate beyond the seen to the unseen, still more necessary is the study of real incidence in the case of taxes ostensibly indirect. It may happen first that the intention of the government that the tax should be shifted from the original payer is not realised at all or only partially ; secondly, it may happen that the part that is shifted is shifted in a way not contemplated ; and thirdly, there are all the after effects and indirect consequences as in the case of direct taxation.

It may also happen that the imposition of a tax, whether direct or indirect, will not only impose a burden, intended or not intended, but may incidentally create an advantage and confer a benefit, sometimes intended, sometimes not.[1] Just as pauperism is attracted by high expenditure, so capitalism is attracted by low taxation, and thus heavy taxation in one district gives an advantage to other districts lightly taxed. Protective duties are intended to protect, but other taxes may create monopolies not originally intended.

It is clear, however, that, whatever meaning or meanings be given to equality of taxation, we must always refer to the ultimate real incidence with all its burdens, direct and indirect.

[1] *Cf.* Edgeworth, *op. cit.*, pp. 53, 62 n.

In every problem of incidence, for the complete solution, two questions must be answered : first, who ultimately pays the tax received by the State ; second, who bears the burdens or enjoys the advantages incidentally created. In the discussion of the general principles we are mainly concerned with the first question, the incidental burdens and advantages being subject to variations according to the nature of the particular tax.

§ 2. *The Incidence of Taxation as determined by Law and Custom.* The general problem of incidence is a problem of distribution, and for the solution we must refer back to the general principles already examined. And it must be observed that just as distribution cannot be entirely reduced to exchange, so neither can the incidence of taxation be considered merely as an application of the theory of value.

The power to shift the payment of a tax or to recoup the payment from another source depends, in the first place, upon the influence of law and custom in the widest sense of the terms. This influence may be so great that there is no possibility of shifting the tax otherwise than as directed by the rules laid down by the State or submitted to under the customs of the society, though even in this case there are indirect consequences, both in the way of burden and of advantage.

The influence of law and custom may be best observed in societies in which exchange is not yet of fundamental importance, as, for example, in those under the dominance of feudalism or village communities.

We find in the development of the incidence of taxation an illustration of the universal progress from status to contract. At first, the force of law and custom directs the transference of the tax to its most minute ramifications ; gradually this compelling power is limited to the collection of the tax from the original payers, they in their turn transferring the whole or part of the burden, according to the principles of contract and exchange.

Take, for example, the development of taxation in England. Taxes at first, with few exceptions[1] (*e.g.*, the rudiments of the customs duties, and of the income and property (movables) tax), are levied on land. They differ from rents in being occasional burdens levied for definite objects of expenditure, but they tend to become permanent burdens and thereby rent-charges.

"All the imposts of the Anglo-Saxon and Norman reigns," says Stubbs,[2] "were, so far as we know, raised on the land and according to the computation of the hide. This generalisation covers both the national taxes like the Danegeld and the feudal exactions by way of aid; both were levied on the hide. . . . Under the general head of *donum auxilium* and the like,[3] come a long series of imposts which were theoretically gifts of the nation to the king, and the amount of which was determined by the itinerant justices after separate negotiation with the payers. The most important of these, that which fell upon the towns and demesne lands of the crown, is known as tallage; and the particular method in which it was to be collected was determined by the community on which it fell or by special arrangement with the parties."[4]

As a particular case we may take *scutage*. The normal amount was assumed to be 40*s*. for each *knight's fee* or *scutum*. Each knight's fee was assumed to contain four hides. And as four virgates usually went to each hide, so each virgate should contribute one-sixteenth of a *scutum*. There are several entries in the Hundred Rolls (Oxon) which state that when the scutage is 40*s*. each virgate pays 2*s*. 6*d*., *i.e.*, one sixteenth of 40*s*.[5]

[1] "The indirect taxation of this period is obscure and of no great importance." — Stubbs, Vol. I., p. 580.

[2] *Constitutional History*, Vol. I., p. 580, 581, 583.

[3] On the use of these *gentle* terms, see above, p. 261.

[4] *Cf.* Pollock and Maitland, *History of English Law*, Vol. I., pp. 600–604.

[5] *Cf.* Pollock and Maitland, *History of English Law*, Vol. I., p. 562, under "Fiscal Powers." "The king, from time to time, grants to his ten-

Scutages and other ancient imposts were thus "radicated in the soil."[1] Even as regards taxes on movables we are told that the documents prescribe how the tax is to be levied. "Of any sum of money cast on the vill as a whole, we read no word; each individual man of the kingdom is to pay a fifteenth of his movables." But by the reign of Edward III., the effect of repeated taxations is that certain quotas have already struck root in the soil of the vills. "Even a tax on movables cannot live without roots; it must attach itself to the land."[2]

Thus, taking a broad survey of the mediæval feudal system, there was no room for a theory of incidence founded on contract or exchange; the king's chief taxers and their assessors followed the tax to its minutest source.[3]

The history of the revenues of India is particularly instructive, and is inextricably blended with the history of the "proprietorship" and "occupancy" of land. The settlements effected by the British Government are mainly of two kinds. In the first (*e.g.*, Bengal) the "chief taxer" becomes the "proprietor"; in the second (*e.g.*, Bombay) the cultivators are taxed direct. In the first case wherever a settlement was made with, and the proprietary right conferred on, some head-man, zamindar, or other individual, over the village landholders generally, there were almost

ants the power of taking an aid or a scutage from their tenants, and though these imposts may be regarded as feudal services, yet in practice they cannot be collected without a royal writ, and in course of time even theory seems to require that the king should have granted his tenants in chief their scutages, and have given them leave to levy their aids."

[1] *Ibid.*, Vol. I., p. 601.

[2] Pollock and Maitland, *History of English Law*, Vol. I., p. 605.

[3] *Cf.* Dowell's *History of Taxation*, Vol. I., p. 80, and Appendix, p. 254. In this appendix an example is given of the assessment for the general fifteenth in 1301 in the Borough of Colchester. The assessor enrols in detail the particulars of the movables, and specifies the value upon each heading of property; *e.g.*, William of Tendring, the tailor, has an old clock, 3*s.*, a bed, 2*s.* 6*d.*, a brass pot, 1*s.* 6*d.*, and a pair of scissors, 3*d.*, total, 7*s.* 3*d.*, and Walter the Weaver has a "surtout valued at 2*s.* 8*d.*, nothing more."

sure to be some others whose rights, though in a subordinate grade, had to be taken care of.[1] Though the zamindar was recognised as proprietor, his right was by no means unlimited as regards the "raiyats" under him. He was responsible to the government for the aggregate taxation on his "property," but it was supposed that the amount fixed was such as to take away all pretext for rack-renting his tenants, and he was not allowed to levy unauthorised dues and exactions. In some of the settlements the middleman is only an ideal body — the jointly responsible community;[2] but the particular contributions are fixed by custom.

In the second class of settlement the government takes the revenues directly from the "raiyats" without the intervention of any middleman — whether zamindar or village community. The land is surveyed and each field or holding separately demarcated, and an assessment fixed on it; the holder of the field — the raiyat — whoever he is, holds it on the simple terms of paying the assessment to the government direct.

For the present purpose it would obscure rather than illustrate the influence of law and custom in directing the incidence of taxation to enter into further detail as regards the development of the land revenues of India. The history of India is the history of a series of waves of immigration and conquest.

Beneath these waves the villages remain comparatively undisturbed; they pay a customary tribute, and custom determines in the last resort the amount of the produce of each field that is to go to the rulers as revenue; at first the payments are in kind, but in time they are converted into money. Besides these land-taxes there are other taxes analogous to the aids and benevolences of feudalism and other mediæval exactions.[3]

[1] Baden-Powell, *Land Revenues of British India*, p. 94; cost of settlement, p. 156. [2] *Ibid.*, p. 125.

[3] "The Raja of Utraula took his grain share, and the rest of his reven-

But of the shifting of taxation in the modern sense by contract and exchange there is scarcely any trace; the ultimate incidence is determined by law and custom laying down rules, and by the predatory and parasitic practices of the tax-gatherers in breaking the rules.

And in modern societies, though the arbitrary abuses of the collectors have been almost abolished, a large part of the incidence of taxation still depends on law and custom, and the tax remains where it is placed.[1]

§ 3. *Incidence of Taxation as determined by Contract and Exchange.* In modern times the State levies certain taxes, — on persons directly or indirectly through commodities, — but the taxed persons may be able to shift the burden according to various economic conditions. The ultimate incidence is no longer altogether determined by the compulsion of law and custom and the rapacity of the collectors, but partly by the voluntary actions of individuals.

When a tax is imposed on any person (with no legal power of transfer), he is naturally led to reconsider his whole economic position so that he may make the burden a minimum on the whole. The possibility of compulsory legal transference being now excluded, he can only get rid of his burden (wholly or partially) by a change in his bargains — and it takes two at least to make a bargain.

It is quite clear that the mere fact of the imposition of

ues were derived from numerous and ingenious taxes; there was the tax exacted for the clothes for the new-born heir, the further levy when the child's head was shaved for the first time; taxes to pay for the repair of his fort, and for a horse or an elephant. The wood cut from the jungle was taxed, and road fees, bridge tolls, and trade taxes were exacted." Baden-Powell, p. 50.

On Liberties and Franchises, see Pollock and Maitland, Vol. I., p. 558; Expropriation and Penal Powers, Seligman's *Essays*, pp. 266, 267, 268.

[1] The supporters of the single tax and of the equal diffusion theory really assume that the shifting of taxes is so complete and easy that there is no disturbance of economic relations. The same assumption is, however, also large enough to prove that all systems of taxation are equally equitable. (*Cf.* Seligman, *Incidence of Taxation*, Bk. II., Ch. III.)

a tax will not in general be sufficient reason for the original taxpayer to ask and receive an indemnity from others. If we take the terms "seller" and "buyer" in the widest sense, — as applied to the purchase and sale of land, labour, and capital, either absolutely or for certain uses, for certain times, under certain conditions, — we may suppose that the State extracts from the seller a certain part of his price, or imposes on the buyer an official charge for the privilege of being allowed to buy.

To take the first alternative: if on the imposition of the tax the seller can simply say to the buyer, you must give me so much more on account of this tax, the question naturally arises why did the seller wait for the stimulus or suggestion of the tax to raise his price? If the seller had a monopoly, it may be assumed that he had already fixed — having regard to the demand — the best price in his interests. If the seller were one of many in competition it may be assumed that the price was so adjusted as to equate demand and supply, and that a rise in price beyond this rate would check the demand. The mere fact that the seller has to pay a tax will increase neither the desire of the buyer to buy nor his means of payment.

To take the second alternative: suppose the tax is imposed on the buyers, they cannot simply say to the sellers, you must sell for so much less. The utmost they can do is to restrict or threaten to restrict their demand, and the sellers may or may not make an alteration in the price in response to this change in demand. And it is possible that under certain conditions the sellers may at first lower and ultimately raise the price. The simple truth is that a tax paid by the seller immediately diminishes his profits, and a tax paid by the buyer immediately diminishes his consuming power, and in either case there is an immediate disturbance in the equation of demand and supply, and there are also ulterior adjustments and readjustments of various kinds.

Thus the theory of the shifting of taxation — when the

shifting no longer depends on law or custom or compulsion in any form — is essentially, as Professor Marshall points out, an application of the theory of value in the broadest sense.

It seems unnecessary again to go through the various cases seriatim, or to rewrite the theory of value with special illustrations from taxation. It is sufficient in this chapter to show the mode of applying the general principles, and to examine later the effects of some important species of taxes.

§ 4. *The Immediate Effects of a Tax on Demand.* The immediate effect of a tax on the buyer (or consumer or demander) is so far to decrease the quantity demanded. That is to say, less will be demanded at the old price plus the tax (or part thereof) than at the old price without addition. This follows at once from the general law of demand. The degree of the effect on the quantity demanded will depend partly on the intensity or the elasticity of the demand, and partly on the possible use of substitutes. It is plain that if substitutes are untaxed and are otherwise equally desirable, the demand for the taxed thing will be destroyed; if, however, all possible substitutes are proportionately taxed or are less desirable, the check to demand will be so much less.

Even, however, in the case of necessaries in which the elasticity of demand is very small and the possibility of substitutes inconsiderable (as in food for clothes, clothes for fuel, etc.), a tax falling immediately upon the buyers must to some extent check the demand, if only for the general reason that the tax of itself cannot increase their revenues, and some, at any rate, must already be spending as much as they can afford (the marginal demanders). So far I have considered the effect on demand only, without reference to supply.

§ 5. *The Immediate Effects of a Tax on Supply.* Similarly the immediate effect of a tax on the seller is to lessen the quantity offered, and again the degree of the falling

off will depend on the elasticity of the supply. If the supply is very inelastic, or in the extreme case cannot be withdrawn, the tax has little or no immediate effect on the quantity offered; if, on the other hand, the supply is elastic, — if, for example, the commodity could be exported to non-taxed markets, — then the tax might kill the sale altogether in the taxed market.

§ 6. *The Immediate Effects on Price of a Tax.* The immediate effect of a fall in demand (the conditions of supply remaining the same) will be a fall in price (as paid to the seller). But the extent of the fall is indeterminate. Before the price has fallen to the full amount of the tax, the withdrawal of supply in response will create a new equilibrium. If the tax is imposed on the seller (the demand remaining the same), the immediate effect is to raise the price paid by the buyer. But again the extent of the rise is indeterminate, because before the price has risen to the full extent of the tax the check to demand will produce a new equilibrium. It makes no difference theoretically whether the tax is taken in the first place from the buyer or the seller; the ultimate incidence depends on the shifting, and the shifting on the elasticity of demand and supply. The general principle is that the tax inflicts more loss on either party the less the elasticity of that party's demand or supply, other things (including the other party's elasticity) being the same.[1]

If the buyers are taxed in the first place, they demand so much less, how much less depending on the elasticity of their demand; and the competition of sellers reduces the original price — the degree of the fall again depending on the elasticity of their supply. If the rise in price would decrease greatly the quantity demanded (a very elastic demand) and a similar fall in price would have very little effect on the quantity offered (a very inelastic supply), the greater part of the tax will fall on the seller.

If the sellers are taxed in the first place, they will so far

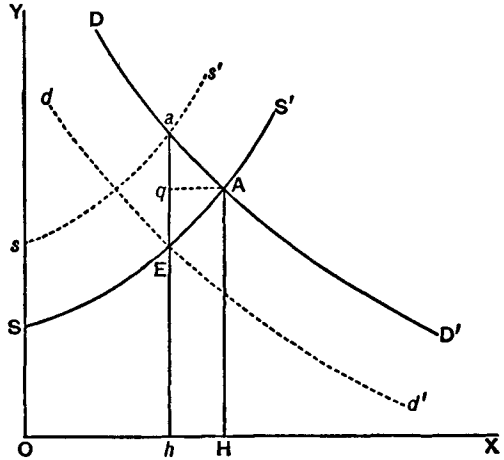
[1] *Cf.* Edgeworth, *op. cit.*, p. 48.

offer less, and the competition of unsatisfied demand will tend to raise the price; and again the new price will depend on the elasticity of demand and supply.

In general, however, except in the extreme or limiting cases, the seller will always receive something less and the buyer will pay something more than the original price, the distribution of the burden being dependent on the relative elasticities. And in general also the effect of the tax will be to diminish the amount bought and sold.

In the limiting case of perfect non-elasticity of demand, if the buyer is determined to have so much *quand même*, the whole of the tax would fall on the buyer; and similarly, if there is perfect non-elasticity of supply and the seller must sell *quand même*, the whole of the tax would fall on the seller. If both demand and supply are perfectly non-elastic, the distribution is indeterminate. If both are perfectly elastic, that is, if the smallest addition to the price will kill demand or smallest subtraction kill supply, the tax kills the market, and there is no incidence because the tax cannot be collected.[1]

[1] The general argument of this section can be best expressed by the use of curves. The figures given by Edgeworth, *Theory of Pure Taxation*,



Economic Journal, March, 1897, p. 50, 51 *n.*, will serve if the Supply Curve be interpreted to mean the general law of Market Supply, *i.e.*,

§ 7. *Ulterior Effects of Taxation on Prices.* — It must be borne in mind that in the preceding section only the immediate effects on market prices have been considered.

that in any market the quantity offered tends to rise with every rise, and to fall with every fall in price.

If the buyer pays the tax aE, Eh will be the price received by the seller; if the seller pays the tax (receiving ah from the buyer), his net receipt is still Eh, and at this price Oh will be offered, and at the price ah, Oh will also be demanded. Therefore Oh is the quantity demanded and offered at the net price to the seller of Eh, and at the gross price to the buyer of ah. And the result is the same whether the buyer or the seller pays the whole of the tax in the first place.

The price ah exceeds the price AH by na, and the price Eh is less than the price AH by En, and na plus En equals the tax. It will be seen that if DD' becomes more elastic, the proportionate rise in price above the original is less, and in the extreme case the whole tax falls on the seller.

Conversely, demand remaining the same, and elasticity of supply increasing, there is a greater rise in price to the buyer.

If the tax is collected in any definite proportion, indicated by q, from both buyer and seller, the result is also the same. The seller pays Eq to the State and the buyer qa; but the seller, as before, receives Eh net, and the buyer pays ha gross, namely, qa to the State and hq to the seller. If the buyer sought to retain qE, at the price ah minus qE more would be demanded than Oh, and at the price Eh minus Eq less would be offered.

Thus Oh is the equilibrium quantity, hE the seller's net receipt, and ah the buyer's gross payment in any case.

But the rise of ah above AH and the fall of Eh below AH will depend on the elasticity of the two curves, DD' and SS'.

Oh is obviously less than OH; ha is greater than AH, and Eh less than AH, except in the limiting cases when DD' or SS' become horizontal or vertical straight lines.

By way of further explanation, it may be added that the SS' curve shows how much is offered in response to certain prices; if, by a tax, so much is extracted from each of these prices, the whole supply curve is raised. Conversely of DD'. If the buyer must pay so much more per unit the whole demand curve is lowered.

The effect of a tax which is paid by the buyer is equivalent to a fall in demand. The desire to possess (relatively to other things), and other conditions remaining the same, the buyer will pay the same total price as before; therefore, if part goes as a tax, he offers so much less to the seller in every case.

Similarly, if the tax is taken from the sellers, they will sell for the same set of net prices as before; that is equivalent to a rise in supply. A higher price is needed to extract the same supply.

The ulterior effects on prices will depend on the various conditions affecting production or supply, with the reaction on demand.

These conditions can only be stated in extremely general terms if they are to be applicable to production (or supply) in the widest sense, including the production of labour and of capital, and also of the adaptation of land and natural agents for productive purposes.

Amongst such general conditions — which have to be taken account of in the determination of the incidence of particular taxes — are: (*a*) The influence of competition and monopoly respectively, which again depend for their efficiency or purity on a variety of causes, *e.g.*, the mobility of labour and capital and of land (in the sense of adaptation to different uses or transference to different owners), and the power of voluntary or State-aided combination. (*b*) We have to consider whether the thing produced follows the law of increasing, decreasing, or constant return — whether the available supply is forthcoming at a uniform cost or at different costs. (*c*) We must take into account the method adopted in taxation, whether the tax is ad valorem or specific, proportionate or graduated, whether imposed directly on the final product, or at prior stages. (*d*) We must consider whether the tax is general or particular, or equal or unequal, and how far it affects substitutes or correlated articles.

The general nature of these conditions and of the subjects covered by taxation shows that the general principles of the ultimate incidence of taxation must be considered in reference to the various classes of taxes, and it will be found that these conditions are of varying importance and operate in different combinations in different cases.

The theory of the incidence of taxation involves, indeed, an application of all the economic principles, theories, tendencies, and disturbances already examined.

CHAPTER XI.

TAXES ON RENT AND LAND.

§ 1. *Taxes on Pure Economic Rent of Agricultural Land.* Economic rent (pure) of agricultural land is generally mingled in practice with other forms of revenue due to capital or labour, and not merely to the natural qualities of the soil. But for theoretical purposes we may assume that the economic rent may be isolated from these other elements. In the normal case the produce-rent will depend on the excess above that of the margin, and the money-rent will depend on the amount of produce and the price per unit which is determined by the marginal cost of production. Thus economic rent is a surplus which depends upon natural conditions that may vary to any extent, and on price, which is independent of rent.

We may further assume for a first approximation that there are separate owners of the various portions of land, that the owners are not in combination, and that the lands are let by competition every year on an accurate estimate of the produce surplus and its price.

And, also, we may assume that there is only one kind of produce, or that the land can be let only for one purpose.

In measuring the economic rent we do not take units of land, but units of productive power (labour and capital) applied to different qualities of land. The rent arises from the different returns to the same amount of power applied under different natural conditions.

With these various assumptions it is quite clear that a tax on economic rent cannot be shifted by the landowners. It cannot be transferred to the consumer of the produce,

owing to the competition of the marginal land that pays no rent and therefore no tax, nor to the farmer, since competition leaves him only ordinary profits.

The amount of each particular rental depends upon units of surplus produced (varying to any extent according to the superior natural conditions), and on the marginal price, which is independent of these superior conditions. And, accordingly, a tax that strikes the surplus only, remains where it first falls.

Even if the tax is very unequal, and is such that after payment superior land yields a lower net return than inferior land, there is no readjustment of the burden.

The same reasoning applies if we consider all the land to be of the same quality, and the surpluses that constitute rent to arise from the different returns to successive doses of capital, or if, as is usual, we find the extensive and intensive application of the law of diminishing returns conjoined.[1]

Also in the case of simple scarcity rent where, though lands and costs are uniform, there is a marginal rent (or differential profit over ordinary employments of capital), the tax lies where it falls.[2]

Generally, under the conditions laid down, a tax on economic rent cannot be shifted by the owner of the land; and if levied in the first place on the occupier, he can retain it from his rent, the mobility of capital acting as effectively as if he were empowered to make the transfer by the law of the land.

§ 2. *Variations in the Conditions Assumed.* We may now observe the variations in incidence according to variations in the assumptions. As shown in a previous chapter,[3] on rent in relation to value, under certain conditions the payment of economic rent may affect the price of the produce. In general, the land may be used for different purposes. If the rent is taxed for one pur-

[1] Book II., Ch. XIV.
[2] *Ibid.* Also Vol. II., p. 77.
[3] Book III., Ch. IX.

pose and not for others, the differential tax will fall on the consumer of the particular produce. Suppose, for example, that the rental of land devoted to deer forests is taxed, whilst if the land is let for sheep it is free.[1] If the lands are equally suitable for both, or yield in the various cases equal rents to deer and sheep, the lessees of the deer forests (who are in this case the consumers of the deer) must pay the exceptional tax, as otherwise the landlord would indemnify himself by throwing the land under sheep. It must be supposed, however, that already the landlords have exacted the highest competition rents possible for their forests. As a consequence any rise in the rents will to some extent check the demand, and if the tax is very heavy the check may be considerable. So far the tendency would be for some of the land to be converted into sheep farms. The increase in the supply of sheep would lower their price, and therefore rents of sheep farms would fall. By the consequent reaction (the alternation of uses being supposed perfect) the rents obtained by the landowners from deer would also fall. Thus part of the tax on deer forests will fall on the rental of mountain land generally, and part on the lessees of deer forests, an indirect effect being a fall in the price of sheep. If, however, the price of sheep is determined independently, *e.g.*, by foreign competition or by the price of substitutes, the tax on deer forests must fall entirely on the lessees, all the land of the less enthusiastic (or marginal) deer-stalkers being let for sheep at the old rents.

If, as is probable, some of the deer land has exceptional advantages for deer, such a transfer of uses could not be made without loss, and so far the tax would fall partly on the landowner. In the extreme case, where all the "forest" land could only be used for deer, the tax would fall

[1] The Scottish deer "forests" consist, for the most part, of mountain land that practically can only yield a rent under deer or sheep, and a heavy tax has been proposed as a means of checking afforestation.

wholly on the land-owners, as explained in the last section. A similar reduction to the first case would occur if the tax is imposed equally on rent, whether the land is under deer or sheep.

In the pure theory it is assumed that the application of capital to the land stops at the last profitable dose.[1] But under certain conditions the cultivation may be pushed beyond this point. Thus peasant proprietors may make what seems an economic rent out of the wages of labour, there being no true surplus. And similarly farmers may pay less than the true economic rent, part being retained as interest on capital, itself yielding less than the normal rate.[2] It is quite possible that capital may be sunk in land to such an extent that, if it is only renewed, the whole economic rent disappears. In these and similar cases the price of produce is lower than it otherwise would be, and what seems economic rent is paid out of wages or profits or interest on capital sunk in the land.

If, then, a tax is imposed upon true economic rents and also upon those falsely so classed, there will be a check to the cultivation of the land. If the lands of peasants are supposed to yield a true economic rent which is in effect part of the wages to their labour, the taxation of their wages will check their industry. If, however, the peasants had been paying such a rent to a land-owner, the tax would as before fall entirely on the owner.

Again, if the landlord is really taxed on the interest of capital sunk in the land (profit-rent being assumed to be economic), a check is placed on the renewal of the old capital and on the investment of new. In either case the price of the produce rises through the check to cultivation, and thus, so far, the tax falls on the consumer. And true economic rents rise owing to this rise in price.

If the land-owners form an effective combination (whether open, tacit, or customary), the case is so far one

[1] *Cf.* Vol. II., p. 78. [2] *Ibid.*

of monopoly.[1] If the tax is imposed during the currency of a lease (as sometimes on local rates) on the occupier, on the occupier it remains till the expiry of the lease.

§ 3. *Taxes on Agricultural Lands and Produce.* So far we have assumed that the tax is levied only on surpluses, though indirectly there may be an effect on marginal production and price. Let it now be supposed that the tax is imposed in such a way as definitely to strike the land on the margin or the marginal produce. Such would be the case of a tithe on all produce, or of a land-tax imposed according to the estimated capital employed in the land or according to the estimated profit.

The case of a tax imposed on land as such, *e.g.*, so much per unit of measurement, may be left out of account. For although, historically, such taxes have been levied, *e.g.*, on the hide as consisting of so many acres, they have soon been transformed, that is to say regard has been paid to the faculty of the land, just as capitation or poll taxes have given way to faculty taxes on income.[2]

The first effect of a new tax striking the margin is that the produce must rise in price, as otherwise the land would go out of cultivation. It is not necessary to assume mobility of capital and equality of profits. Even under the most rudimentary conditions there may be marginal land, and, if the cultivators are taxed, their livelihood would be gone.

The ulterior effects of the rise in the price of the produce will depend on the elasticity of demand.

If the demand is non-elastic, the same amount of land is still used. Therefore other rents will rise in proportion to the tax on the produce, and the owner will only lose the amount of the tax on the margin, and may be more than compensated by this rise in price. The produce-rent remains the same, and each unit rises in price in proportion to the tax, whilst the deduction for tax de-

[1] For taxes on monopolies, see Marshall's *Principles*, Vol. I. (4th edition) Bk. V., Ch. XIII.

[2] St. Vincent and British Guiana still retain the uniform tax.

pends on the marginal capital. If, therefore, the produce-rent is relatively large compared with the margin, the land-owner gains by the tax. If, however, produce-rent is small, he will lose.[1]

If the demand is elastic, the margin will recede owing to the rise in price. There will thus be a fall in produce-rents, and also the new marginal price will be less than the original marginal price plus the tax. The rise in price due to the tax will be partly checked by decrease in the cost of production.

In this case the new rents will still rise if on the whole the rise in price more than compensates the loss by the tax and the loss in produce-rent.

If, secondly, we assume that the tax is not uniform, but proportional to the produce (*e.g.*, a tithe), there will be as before a rise in price, and so far there will be a compensation to the fall in produce-rents that must occur by the subtraction of the tithe. But in proportion as the demand is elastic, there will be a further fall in produce-rents and in the net money-rent.

There may be also a further fall in rent due to indirect and more remote effects. In the pure theory as worked out by Mill[2] (with the materials of Senior) the usual assumptions are made as to an isolated country, the dependence of the minimum wages on the cost of food and of minimum profits on the cost of labour. With these assumptions it is easy to show that in the ultimate result the minimum of profits will be reached with a smaller capital and population and a lower rental than if the course of things had not been disturbed by the imposition of the tax. This view of the subject is illustrated by likening the effects of tithes to those of natural sterility of the soil, and the differences between the two cases serve to illustrate the assumptions involved and the deductions obtained by the classical political economy.

[1] The exact conditions can only be laid down by mathematical curves or formulæ.

[2] pp. 506, 507.

Under present conditions, however, the assumption of an isolated country is so unreal that it is better to assume that the price of corn would be determined independently of the tax, supposing, which seems equally unlikely as regards the United Kingdom, such a tax were possible for food.

§ 4. *Taxes on Economic Rent — Building-land.*[1] Similar reasoning may be applied *mutatis mutandis* to the case of building land.

To begin with the simplest case: let it be supposed that the land is only of use for building, that the same amount of capital is applied to each site, that there is perfect mobility of capital, and that the economic rent varies solely with advantage of situation. Under these conditions it is clear that a tax on economic rent falls entirely on the land-owners. The builders are immune because their capital can be applied to other purposes, and the occupiers escape because the land cannot be used otherwise, and already the land-owners have obtained the best results by competition.

The result is the same if we suppose that the buildings are extended in height until the marginal storey is reached.

To vary the conditions, assume next, that some of the land, *e.g.*, the suburban land, can be used for agriculture. The agricultural rental will depend on the conditions affecting agriculture generally, and the peculiarities of the land; so that we may say that the agricultural rent is independent of the urban conditions. If, then, a tax is imposed on building, but not on agricultural, rental, the tax on ground-rent on the margin will obviously fall on the occupier. Land will not be devoted to building unless it gives at least the agricultural rent plus the tax. It is also argued (as by Mill) that this amount of tax on ground-rents will fall on all the occupiers, because as the result of

[1] *Cf.* Edgeworth's "Pure Taxation," *Economic Journal*, March, 1897, for a full treatment by mathematical methods, the results being ably translated into literary English.

competition for sites the values of the differences in the net advantages will remain constant.[1] This assumption, however, is purely arbitrary and not very probable, as it assumes similar elasticity (or inelasticity) in the demands for various sites. It might, however, happen that nearer the margin a small rise in price would have greater effect on the demand than at the other extreme. Thus suppose the marginal land is worth £10 an acre for nursery gardens, and if let for building must pay £5 per acre in addition. Then if it be assumed that building-lands are graded by additions of £10 running up to £1000 per acre, Mill's theory assumes that in each case £5 will be added to the rental of the occupier: *i.e.* £10 becomes £15, £990 becomes £995, and £1000 becomes £1005.

But it is quite possible that though, owing to the alternative use in the case of the £10 land, the whole £5 may be thrown on the occupier, the occupiers higher in the scale will not be forced to pay the £5. They may say — not that they will give £10 more for one site than for another *quand même* — but that *quand même*, having regard to other expenses, they will pay only so much for house-rent. People may be forced to pay £15 per acre to get some accommodation, but rather than pay £30 instead of £25 they would submit to some inconvenience.

The transmission of the £5 per acre through the assumption of fixity in the differences of values becomes more difficult when we take into account the greater capital expended on the buildings of the superior land as in the flat system compared with villas. If villa gardens were taxed £5 per acre, it is not easy to see why a flat in the centre of the city should pay some fractional part (say a penny) more, by way of ground-rent.

Instead of assuming, however, that the tax is uniform on all lands, we may make the more real assumption that

[1] "But whatever raises the lowest ground-rents raises all others, since each exceeds the lowest by the market value of its peculiar advantages." — Mill, p. 502.

the tax is imposed on the building-rent and ground-rent conjoined as house-rent.

In discussing this case Mill again makes an assumption which has the advantage of simplicity but is purely arbitrary: he supposes, namely, that a tax of (say) 10 per cent on house-rent will fall on the ground-rent and on the building-rent exactly to the extent of 10 per cent in each case; and whilst that on the ground-rent remains on the landlord, that on the building-rent remains on the occupier. If the building-rent is regarded as determined by the ordinary rate of profit, and the occupier's demand is inelastic, a tax on the total house-rent levied from the occupier must fall in the first place on the occupier. But on the same assumptions he cannot transfer any part to the land-owner. If, however, the demand is elastic, and as before the building-rent constant, part of the tax will be thrown on the landlord — but the amount will depend on the elasticity of demand. And the transference can only take place, of course, on the assumption that the contracts for the hire of the land are subject to constant renewals on any change of circumstances.

It follows, then, that in general a tax on ground-rents, if intended to strike the landlord, should be levied directly, and not be left to be shifted by the occupier on the renewal of his lease. And the longer the lease, still more necessary is it to levy the two portions independently.

There is, however, always the practical difficulty of determining how much of the total house-rent is to be ascribed to the ground, and how much to the building, when we are considering buildings erected under different conditions. There is besides, in business premises, the value of the good will, and in ordinary residences, the value of the tenant-right as shown by the general condition and amenity.

Still the fact remains that during the lease any new tax levied from the occupier cannot be shifted, and on the expiry of the lease may not be shifted in the proportion

intended. In the case of feu-duties in Scotland, the ground is let in perpetuity at a fixed rental.[1] Thus the actual feu-duty may differ to any extent from the true ground-rent. Occasionally the feu-duty is so heavy that the building will not, *qua* building, obtain the ordinary rent, but in a progressive state the feu-duty often becomes much less than the true ground-rental.

It is clear that a tax on the occupier or the feuer cannot be transferred to the owner of the feu-duty, unless power is given by law, and then we have a case, not of shifting, but of legal incidence.

These feu-duties or perpetual rent-charges are, however, constantly bought and sold according to variations in the rate of interest (the security being generally supposed perfect as being a first charge), and a tax levied on them should be governed by the rates applicable to similar first-class securities.

The ground (subject to the feu-duty) also changes hands, the value being determined by the estimated ground-rental under the new conditions. The buildings also are let at varying rents — and may be displaced by other buildings, as, for example, when dwelling-houses are removed to make way for business premises. Thus in any actual case it becomes difficult to assign the true share of the gross rental due to the pure value of the land.

Any tax intended to strike "land values," which really strikes the occupiers of houses, has important ulterior effects. As regards dwelling-houses, it may lead to overcrowding and may check improvements, and as regards businesses, it may check their development or in some cases may fall on the consumers of the articles supplied.

On the other hand, a special tax on land suitable for building which is being held up for the rise in value, and in the meantime is only rated at its agricultural or unbuilt value, would tend to throw the land sooner into the

[1] Omitting casualties and various feudal burdens which may in general be commuted.

hands of the builders, and so far in the meantime general house-rents would fall. But the ulterior effects might be that lands would be used for inferior buildings which it would be expensive to remove later on, so that ultimately the lands would not be so well occupied and would yield lower rents and also lower taxes, and besides would have buildings not so well adapted for the use of the tenants.

§ 5. *Taxation of Land Values — Practical Conclusions.* The preceding sections indicate the principal theoretical difficulties in connection with the incidence of taxes on land, and by varying the hypotheses, and by making different combinations, many other cases might be presented. Enough, however, has been brought forward to justify some important practical conclusions regarding the proposal to tax "land values."

(*a*) Any tax intended to strike pure economic rent should be taken directly from the owners of that rent. The shifting by the occupier is uncertain, and the uncertainty causes inequality. The partial evasion by the occupier (*i.e.*, legitimate evasion) as by taking inferior accommodation, or by charging higher rates to the customers of his business, is productive of economic loss that may far more than neutralise any gain of revenue to the State or the municipality.

(*b*) It follows also that if these inconveniences are not to ensue, the amount of the true economic rent must be accurately determined, and the ownership definitely traced. Both of these problems present great practical difficulties. True economic rent is in practice nearly always combined with other forms of revenue. The rent that is paid for agricultural land is partly, and very often largely, simply interest on the various forms of capital sunk in and about the land. This interest is, in general, calculated at a low rate. Any exceptional taxation on "economic rent" that actually struck profit rent, would check agricultural improvement, and lead to the deterioration of land already improved.

Again, as regards the ground-rents of urban lands, although the pure economic rent seems, at first sight, more easily ascertained, it is, as a matter of fact, very difficult to determine accurately, and there must be a considerable margin of doubt. If houses were tents or tabernacles that could be easily shifted, and required no connections with systems of roads, water, lighting, drainage, etc., the economic rent of a "stance" would be simple enough. But the more complicated the building and its connections, and the more it is adapted for special purposes, so much the more difficult is it to separate the pure economic rent of the ground from other elements included in the gross rental.

Further, even when the amount of the pure economic rent has been determined, there is still the difficulty of discovering the true owner, that is to say, for the purposes of this exceptional taxation. The "true" owner from the point of view of those who advocate this particular penalty is in the position of the "original thief" of stolen goods. Just as a purchaser in market overt is not held to be liable to restore the goods, so neither should the person who has paid the full value for land to the original thief be liable to restore the land (or its value) to the original owner — the community. But in old countries the original thief has long ago been lost sight of — he cannot be tracked through the maze of contracts.

It is said, however, that apart from this original suppression of free land, there is a continuous exploitation by private owners of the increasing revenues really due to the growth of the State, or more precisely to the environment of the land. This is, no doubt, perfectly true in progressive societies under certain conditions — though not necessarily and universally true as is shown by the great fall in the rental of some agricultural lands in England in recent years, and in the decaying parts of some towns and cities. But supposing that this unearned — this continually "becoming" increment — could be sepa-

rated, it would still be difficult to tax the true owner or the actual exploiter. If the exceptional tax were imposed on the sales of lands, it would check the transfer of lands, and a corresponding tax carried over to the lands not sold would be difficult to estimate accurately. If the tax were imposed on new leases, it would give a relative advantage to the old lessees; and if they were taxed accordingly, there is again the difficulty of estimation.

(*c*) The proposal to tax land values — in the sense of "unearned increments" — is simple only in appearance. It is not only difficult to distinguish in rentals between unearned and earned, and between the respective owners of these portions, but it is difficult to know when the application of the principle is to stop, and the fear of creating precedents is one of the greatest and most salutary checks on governmental interference. It has already been explained that there are large unearned elements in every species of revenue. But there can be no question that any attempt to seize them as they arise would cramp the general activity of the society, and to seize them after they have been suffered to accumulate would be an *ex post facto* policy which would quite as effectively encourage the others not to make any such gains.

It is, of course, assumed in this argument that the seizure is complete and differential, for such additions to property and income are of course subject to general taxation of an ordinary kind. There can be no question that the attempt generally to differentiate between earned and unearned income would logically end in socialism, and would destroy the efficiency of the present system.

(*d*) And thus we again reach the position that, if the ultimate aim is socialism or any approximation thereto, it is better to try to attain the end, not indirectly by exceptional taxation, but directly by more general methods. And still more is this the case if the reforms contemplated are not so subversive of the present system as to be fairly called socialistic. There are many positive abuses con-

nected with the private ownership of land, and there are many defects resulting from a want of land for public purposes. But to suppose that those abuses and defects will be counterbalanced or obviated merely by the absorption of unearned increments is altogether illogical. It is amazing that people who think they are extreme land reformers should imagine that, if they can only seize the unearned increment of land, everything else will follow. It is not only possible and probable that the method of seizure adopted, if at all general and exhaustive, would create still greater abuses and defects, but the total value — after allowing compensation to holders in good faith — would be ridiculously small for the social elevation of the masses, the professed object in view. The pursuit of this will o' the wisp of an unearned increment turns the attention away from possible, though difficult, substantial reforms. Such reforms are prevented by the too great deference still paid to the owners of land in dealing with definite abuses. Improvements in cities are constantly prevented, not only by the ransom to be paid by way of compensation to vested interests, but also by the vague respect shown to land as distinct from other property. The method of legal enactment — justified by various legal principles — would soon reduce this compensation and these antiquated rights to reasonable limits. The method has already been applied with effect, but is capable of much wider and more rapid extension.

Land, again, may be applied to various purposes of great public utility, but of little commercial value to particular individuals. Free access to mountains and *quasi*-waste lands would cause little monetary injury either to farmers or sportsmen, and for any real injury compensation might be given. Similarly rights of way might be given through cultivated land — according to the old English custom there was a foot-path way between villages — and in many other ways the amenity of land might be enjoyed without any serious injury to its commercial exploitation.

By the theory of English law it is said that the owner of the land can prosecute for trespass those who sail above it in a balloon, although happily his remedy would consist only in the damages proved to result. But very few people know anything of the law of trespass, and the threat of the utmost rigour of the law placarded on multitudes of notice-boards throughout this country is a ridiculous exploitation of the law-abiding habits of the community.

The provision of open spaces in crowded neighbourhoods is now considered so important that great expense is incurred in widening streets and making gardens in the older parts of towns and cities; and yet we find that such cities and towns are continually extended into purely agricultural land without any adequate reservation of space for light and air in the dwellings, convenience of communication, or facilities of recreation. Instead of attempting to obtain the unearned increment from new, crowded dwellings, it would be far better from every social standpoint to extend the area of building, not by taxing vacant building-lands, but by compelling all new building-land to contribute a share toward providing for the perpetual vacancy of sufficient land for public purposes. As it is, a town is extended as if the inhabitants intended to fortify it with a wall able to resist modern artillery, and as if the means of communication were restricted to muddy mediæval roads.

That a part of newly occupied land should be reserved for public purposes is a custom of the highest antiquity. Mr. Seebohm, in his classical work on the English village community, was unable to account for the origin of little odds and ends of unused land which have from time immemorial been called "no man's land," or "any one's land," or "Jack's land." Mr. Gomme,[1] however, has suggested that an explanation may be found in a Scottish custom.[2] Clootie's croft or the gudeman's field consisted of a small

[1] The facts cited are taken from Mr. Gomme's *Village Community*, pp. 114, 115.

[2] Quoted from Henderson's *Folklore of Northern Counties*, p. 278.

portion of the best land, set apart by the inhabitants of most Scottish villages as a propitiatory gift to the devil, on which property they never ventured to intrude. It was dedicated to the devil's service alone, being left untilled and uncropped, and it was reckoned highly dangerous to break up by tillage such pieces of ground. In several places in Devonshire similar patches of ground are also found. The explanation of them comes from the non-Aryan villagers of India. Among the aborigines of Gangpore a fragment of the primitive forest is left when the first clearance is made, as a refuge for the sylvan deities whom the clearing might have disturbed.

Auld clootie no longer haunts the gudeman's field — the sylvan deities have vanished — "they live no longer in the faith of reason" — but still the hearts of men have the old longing to keep bits of land sacred from private ownership.

The laws affecting land (as typical of nature) — whether as regards hire, purchase, or public use, whether as used for agriculture, building, or mining, or considered as furnishing motive power or providing recreation — are necessarily complex. But the legal principles that are still applied are to a great extent antiquated, and their reform is prevented because the effective energy of reformers is dissipated in vaporous schemes for nationalisation and taxation of land values.[1]

[1] This chapter was in the press before the publication of *The Final Report of the Royal Commission on Local Taxation.*

CHAPTER XII.

TAXES ON PROFITS AND CAPITAL.

§ 1. *Taxes on Profits.* Profits (according to the analysis previously given of the common acceptation) consists of three elements : viz., interest, insurance against risk, and wages of superintendence (or earnings of management). The principle of the tendency of profits to equality may be applied to each of these elements separately, but it can only be applied to the incidence of taxation when the various qualifying conditions are taken account of according to the circumstances of the case. We may, to begin with, assume perfect mobility of capital and business power (and coördinate forms of professional labour), and assume, further, perfect competition, but if the object is to discover the ultimate real burden of certain forms of taxes, the modification of these perfections by partial immobility and partial monopoly must also be considered. It must be remembered also that all that the theory of equality of profits asserts under the most favourable conditions is that if any particular form rises above or falls below the ordinary current rate (having regard to *quasi*-permanent causes of difference), such a rise or fall will be unstable. Thus it is seen at once that the shifting of taxes through this tendency of profits to equality must always be a matter of practical difficulty. At the same time it is not necessary to resort to the extreme of Cliffe Leslie, and to suppose that the theory is of no practical importance whatever. As a matter of fact a large part of actual taxation, *e.g.*, taxes on commodities, depends on a theory of shifting which is based on this tendency to equality, and the shifting does take place with — it is true — important disturbing

causes. It will be convenient to examine in the first place the three elements of profits in order and later on to consider taxes on commodities, and general income and property taxes.

§ 2. *Taxes on Interest.* The interest on capital in any industrial or commercial area in which the conditions of perfect competition are approximately realised tends to equality, provided the security for the payment of principal and interest is the same. If, then, a tax is imposed on every form of pure interest, the incidence will be in the first place on the owners of the capital. They cannot shift the tax by the removal of the capital to untaxed industries. But two indirect consequences will follow. (*a*) As Adam Smith remarks, the proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition in order to be assessed to a burdensome tax, and would remove his stock to some other country, where he could carry on his business or enjoy his fortune more at his ease. This argument applies, it is true, to profits generally, but it is still more true of pure interest, or of interest with allowance made for difference of security. If, then, capital is sent abroad, the ultimate result will be that the country in which the tax is imposed will possess less capital, and this will yield so far a higher rate of interest and thus counterbalance the burden of the tax. (*b*) But secondly the tax will tend to check the accumulation of capital within the country so far as interest received is a cause of accumulation. It must, however, be recalled that the rate of interest is only one of the causes affecting the accumulation of capital.

A tax on some particular form of interest (security still being supposed perfect), for example, on mortgages on land, would fall on the borrowers, because the lenders could escape the tax by lending in other ways.

In general, however, the security is more or less imper-

fect, and insurance against risk is allowed for in the rate of interest charged on borrowed capital. Thus a tax which takes an equal percentage from all species of interest will be in part a tax on insurance against risk, and the tendency must be for such a tax to fall on the borrowers of the capital.

Suppose at any time a perfect security yields 3 per cent, and one with greater risk 6 per cent, then 3 per cent represents the estimated value of the insurance against risk. A tax (say) of one-third for simplicity which reduces the net yield on the first to 2 per cent would reduce the net yield on the latter to 4 per cent. In order then for the insurance against risk to remain undisturbed, the gross yield in the latter case must rise from 6 to $7\frac{1}{2}$ per cent.[1] It follows then that a tax levied on all forms of interest (no allowance being made for risk) would tend to check investments in proportion as risk was involved. This result would follow, even although the rate of interest on perfect security, owing to the causes noticed above, were raised in proportion to the tax.

3. *Taxes on Earnings of Management.* A tax on that part of profits known as earnings of management would, if imposed generally, fall in the first instance on the entrepreneurs or employers of capital, and with similar indirect consequences to those observed in the case of interest. Capital would tend to flow abroad and accumulation would be checked, especially so far as the employers of capital are also the owners.

If the differences in the net advantages of different methods of employing capital are supposed to remain constant according to the various causes of differences of profits in different employments, a proportional tax on profits must be in part transferred to the consumers of the articles produced, in the same way as a tax on interest with insurance was shown to fall on the borrower.

That element in gross profits which is styled *quasi*-rent

[1] One-third taken from $7\frac{1}{2}$ is equal to 5, and 5 minus 3 is 2.

may, so far as taxation is concerned, be treated by the principles applicable to rent so far as the immediate incidence is concerned. There is, however, an ulterior effect to be noticed. *Quasi*-rents in their most important form may be regarded as rewards for the adoption of more effective methods of production or distributive consumption. Taxation intended to strike such exceptional gains heavily will so far tend to check improvements and enterprise. In the same way taxes on speculative gains will check speculation with consequent reaction upon prices.

A tax on some particular form of profits (as distinct from a tax on general profits) will, it is generally said, fall on the consumer of the article produced on the ground of the tendency of profits to equality. This view will be examined in connection with taxes on consumable commodities.

It will be seen from this general survey that the incidence and effects of a tax on profits (taking the term in its common acceptation without analysis) are extremely difficult to determine, and the practical difficulty is still greater than the theoretical. Profits are always fluctuating and extremely difficult to estimate. "Profit," says Adam Smith, in the most effective presentment of this peculiarity yet made, — "profit is so very fluctuating that the person who carries on a particular trade cannot always tell you himself what is the average of his annual profit. It is affected, not only by every variation of price in the commodities which he deals in, but by the good or bad fortune both of his rivals and of his customers, and by a thousand other accidents to which goods, when carried either by sea or by land, or even when stored in a warehouse, are liable. It varies, therefore, not only from year to year, but from day to day, and almost from hour to hour."

The practical difficulty in estimating profits is shown by the various empirical rules adopted for assessing profits for taxation. Thus it is assumed that in England farmers'

profits are equal to one-half the rent, and in Scotland to one-third, though any farmer who thinks himself over-taxed may show his books and have the amount adjusted.

§ 4. *Taxes on Capital.* Taxes on capital, as distinguished from taxes on the revenues derived therefrom, are levied principally, at the present time, when property changes hands, and may be divided as they are by Adam Smith, according as they are levied when property passes (*a*) from the dead to the living, (*b*) from the living to the living.

It is obvious as regards incidence that taxes of the first class (*a*) are the most direct of all taxes, in the sense that they cannot be transferred to other persons by the beneficiaries. The principal difficulties connected with the "death" duties arise in connection with the canon of equality of taxation. Opinion is still divided as to whether different classes of property should be taxed at different rates, *e.g.*, personal and real estate, and on what principles, as well as on the advisability or equity of making such taxes graduated or progressive. These questions have already been discussed[1] in respect of the principles involved, and further discussion may be reserved for the treatment of local finance. As regards capital — in the sense of productive capital — it may be observed that heavy graduated succession duties would give a stimulus to personal extravagance and impose a check on accumulation, and as a consequence production might be lessened, partly by want of capital and partly by the check placed on production on a large scale. A heavy tax on large capitals at home will place a premium on investments abroad.[2] With the present rate of accumulation in this country the stimulus to exportation is not perhaps of much importance, but it might become so, and every check to production on a large scale would tend to check economies and place the country at a dis-

[1] See above, Ch. VII.

[2] *I.e.*, supposing they can evade the succession duties.

advantage in foreign competition. Indirectly the creation of joint stock companies might be artificially encouraged. These objections, however, to progressive succession duties do not appear to be of much importance so long as the duties are not excessive.

Taxes on the transference of capital from the living to the living cannot be very easily taken directly, as Adam Smith points out, since such transactions may be easily kept secret under the cover of nominal ownership or trusts. This possibility of evasion has led to the invention of stamp and registration duties. The penalty of invalidity attached to unstamped documents of various kinds has proved a very effective deterrent to evasion.

A tax on sales will vary in its incidence according to the principles already examined, *e.g.*, the elasticity of demand and supply, the conditions of competition and monopoly, etc. The famous alcavala of Spain was a tax of so much per cent upon the sale of every sort of property, whether movable or immovable, and was repeated every time the property was sold. It is, perhaps, of all historical taxes that which offends most against all the canons, and to it is ascribed alike the ruin of Spanish manufactures and agriculture.

If taxes on sales — *e.g.*, of lands or stocks — are imposed in such a way as to fall less heavily on large transactions, the tendency will be for the differential portion of the tax at least to fall on the purchaser of a small amount, and accordingly transactions in small amounts will so far be discouraged.

CHAPTER XIII.

TAXES ON CONSUMABLE COMMODITIES.

§ 1. *Meaning and Origin of Taxation of Commodities.* Since all taxes fall on persons, and must be paid by them out of their income or property, it follows that taxation of commodities is only a method of reaching the wealth of persons. Even under modern conditions it is found inexpedient on various grounds to push direct taxation beyond certain limits, and in the United Kingdom under free trade about half of the imperial revenue from taxation is derived from customs and excise duties.

In ancient times[1] the direct taxation of freemen was considered a degradation. In Rome under the republic, as in Athens, a citizen paid no tax on his personal income; his property also was burdened with taxation only as an extraordinary resource in case of need. The chief sources of income were public estates, fines, tributes, and indirect taxes.

The levying of a direct tax on a freeman, to the Teutonic man as to the man of antiquity, seemed an insult, and the regularity of a personal tax a sign of bondage. So late as the seventeenth and eighteenth centuries[2] there was an enthusiasm for indirect taxes, and the saying of Montesquieu, that the excise is an attribute of liberty, was expanded by Thiers into the dictum that indirect taxation is the method of the most advanced peoples, direct taxation that of barbarians. The contrary opinion, however, is now generally accepted both on historical and theoretical grounds.

[1] Cohn, *op. cit.*, § 56. [2] *Ibid.*, § 62.

§ 2. *Methods of Taxing Commodities.* Under modern conditions, taxes on consumable commodities are levied in three ways: (*a*) directly on the consumer, *e.g.*, licenses to use certain things; (*b*) indirectly through the inland producer, *e.g.*, excise duties; (*c*) indirectly through the exporter or the importer — customs duties. The term "consumable commodities" must be taken in a large sense, *e.g.*, *qua* the dog tax, the owner is the consumer of the commodity dog, and by analogy the employer is the consumer of his liveried servants (and not the converse).

(*a*) Of taxes that are imposed primarily on the consumer the most important in modern times is the house tax, if the occupier is regarded as the consumer of that commodity. The incidence, however, of the house tax is best considered in connection with taxes on land and rent,[1] and the other characteristics of the tax under local finance.

Other direct taxes on consumption may be described as licenses on use. Such licenses are of very ancient origin. Some were payments for privileges, as in the old forest laws; some were granted originally by way of exemption from sumptuary regulations; various prohibitions affecting ornaments, dress, and festivities were commuted into a fiscal composition.[2] In some of the mediæval German towns the fees paid for wedding feasts formed a regular source of income. Other licenses may be traced to royalties[3] of various kinds (including monopolies). The monarch claimed an increasing number of prerogatives by which he could exact payments for the use or enjoyment of various things and privileges.

Under present conditions direct taxation of the consumer is not considered a convenient source of revenue except to some extent for local purposes.[4] The great objection to such taxes is that they are inconvenient to

[1] See above, Ch. XI. [2] Cohn, § 57.

[3] *Ibid.*, § 69. An enumeration of four hundred regalia is mentioned.

[4] Bastable, p. 466.

the taxpayer, and unproductive to the revenue. In the United Kingdom the annual average (on carriages, dogs, guns, etc.) from this source is now only £1,360,000.

Some of these licenses, however, are retained partly for police purposes.

(*b*) The present excise duties — levied on the inland producer — may be connected historically with direct consumption taxes. In England, as already observed, the Saxon monarch lived of his own, but he also took directly much consumable wealth in the course of his journeys through the country. The royal court travelled like a host of locusts. The next step in advance was the development of the right of purveyance or preëmption. The king paid for his commodities, but he did so at prices fixed by his own officers and with tallies that were not always honoured on presentation. In the literal signification these exactions were excises, but they differed from the modern excise duties in that they were sporadic and not uniform, and were often taken, not from the "producer," but from the "consumer." They were also extremely unequal. Purveyance in England lasted till the Civil War, of which it was a contributory[1] if minor cause, and was not formally abolished till 1660. It is noteworthy that the first excise in the modern sense was granted by the Long Parliament in 1643: it was one of the numerous British imitations of the Dutch.

Excise duties may also be traced to another source. The king possessed large feudal rights in the shape of market dues and tolls, and the transition from exactions of this kind to taxes on sales was natural and in most countries was accomplished very early.

The crown also enjoyed certain prerogatives for the regulation of trade. Many fines were imposed and licenses

[1] On the unpopularity at that time of purveyance and preëmption, see Dowell, Vol. II., p. 19, and for earlier times Stubbs, Vol. II., p. 535.

granted in matters affecting trade and merchandise.[1] From regulation to taxation the transition also seemed easy and natural until the revolt of the American Colonies shattered the survivals of this mediæval prerogative.

(*c*) The customs duties — levied on exports to and on imports from foreign countries — are of very ancient origin. The term "customs," or its Latin equivalent "*consuetudines*," was at first applied to all kinds of customary payments, including *inter alia* various kinds of ecclesiastical dues.[2] Customs duties in the modern sense may be traced like excise duties to different sources. Tolls were levied by the king at the ports; there was *prisage* of wines; there were *dismes* and *quinzimes* of general merchandise (tenths and fifteenths); and licenses were granted conferring exemptions and privileges. Some of these early customs have been supposed to be examples of the benefit theory of taxation — the payment being regarded as a purchase of the king's security, and thus as a species of insurance against risk. They were, however, more probably a development of the right of *prisage*.

The duties levied at the ports had become customary before Magna Charta,[3] and attempts at additions were condemned as *maletotes*. These ancient and lawful customs were continued from 1215 to 1275 when the foreign merchants granted some additions[4] which, with those formerly in use, constitute the "ancient and great" customs. The reign of Edward III. was always referred to as the golden age of customs, the principal contribution being from the export duty on wool.

[1] Madox, *Exchequer*, Ch. XIII., § 3, gives examples of fines for leave to trade.

[2] Madox, *Exchequer*, Ch. XVIII., p. 525. See for full details of the origins, H. Hall's *History of the Customs Revenue*.

[3] In the 6 King John the *quinzime* for the port of London was £836 12*s.* 10*d.*, whilst that of Boston was £780 15*s.* 3*d.* — Madox, *Exchequer*, p. 530.

[4] The private bargain of the king with the foreign merchants was an attempt to evade the regulation of Parliament, and was set aside.

This king had obtained practically, by successive parliamentary grants, a permanent revenue from tunnage and poundage.[1] His successors, however, only obtained them for limited times, or at most for life. All the Tudors were granted tunnage and poundage for their lives. The assumption of the right without the consent of Parliament by Charles I. was even more than purveyance a contributory cause of the Civil War.

§ 3. *British Customs and Excise in the Nineteenth Century.* The history of the British customs and excise duties in the nineteenth century, when they had become a fearfully tangled growth, is the best possible commentary on the principles of taxation laid down by Adam Smith and developed by his successors. There is not one of the great canons which we are accustomed to take for granted which was not transgressed in every conceivable application before the conclusion of the great French war (1815). Taxes were, apparently, supposed to fall not on *persons* but on *things*, and everything was taxed, — exports, imports, and home produce for home consumption: "Taxes upon every article which enters into the mouth, or covers the back, or is placed under the foot. Taxes upon everything which it is pleasant to see, hear, feel, smell, or taste. Taxes upon warmth, light, and locomotion. Taxes on everything on earth or under the earth, or everything that comes from abroad or is grown at home. Taxes on raw material, taxes on every fresh value that is added to it by the industry of man."[2]

In spite of this enormous taxation of "things" the national debt was increased by £622,000,000, and we have it on the authority of Mr. Gladstone that if the income tax, which in 1814 was 2*s.* in the pound, had been imposed before 1806, there need have been no fresh

[1] Tunnage refers to the tun of wine; poundage to the pound *value* of merchandise.

[2] Sydney Smith in the *Edinburgh Review* (1820). This celebrated passage is quoted *in extenso* in Dowell, II., p. 251.

debt. In 1792 the total expenditure of the British government was about £18,000,000, in 1814 it was £112,000,000; namely, £34,000,000 from loans and £78,000,000 from revenue taxes.[1] The wisdom or the necessity of the management of the debt with the constant "import" of loans and "export" of repayments has been disputed, but there can now be no dispute as regards the tremendous burden imposed directly and indirectly by this cumbrous system of taxation of commodities. When the war terminated, the income tax was taken off and the indirect taxes were left. A parliamentary report of 1829 showed that £6,000,000 were raised by taxes on the raw materials of manufacture, — the worst of all methods, because advanced by the producer at the first stage, — whilst, *per contra*, protective duties were levied on every manufacture whatever — on those not specially enumerated 20 per cent, and in some cases 75 per cent. Agriculture was protected still more — there were not only corn laws but animal laws (the duty on an ass being 10*s.* and on a horse £1), whilst the importation of animals used as food was absolutely prohibited. Even in 1832, the year of the great Reform Bill, the popular agitation was mainly directed against sinecures, not against dear food. By the customs tariff of 1842, 262 articles of raw materials of manufacture yielded about £2,000,000, and 200 finished manufactures yielded less than £500,000; and taking a general view we find that there were 704 articles which altogether yielded a little over £1,000,000.

The excise duties give corresponding results: many were unproductive and many were prolific in evil results (*e.g.*, taxes on bricks, glass, paper, soap).

The period of reform began practically in 1842 under Sir Robert Peel. In that year he reimposed the income tax, which enabled him to abolish or reduce many of the most injurious customs duties, *e.g.*, duties on raw material were lowered to a maximum of 5 per cent, and duties

[1] John Noble's *National Finance*, p. 4.

on manufactures to a maximum of 20 per cent. In 1845 the income tax was renewed for three years to effect further reforms, and 430 articles were taken off the tariff and other reductions were made. In 1846 the corn laws were repealed, and animal food (alive or dead) was admitted free, and many other customs duties (as also the excise on glass) were abolished. The same policy was continued under Lord John Russell, the Navigation Acts being repealed in 1850. In 1853 Mr. Gladstone became Chancellor of the Exchequer, and celebrated the occasion by the delivery of a Budget speech[1] of five hours' duration — probably the finest oration on finance ever delivered, and certainly the strongest in argument. His main theme was the renewal of the income tax. He showed, as has never been shown before or since, the inequalities and the difficulties of this tax, and yet, in order to effect further reforms in indirect taxation, he not only renewed the tax, but he lowered the limit of exemption from £150 to £100, he extended the tax to Ireland, which had formerly been exempt, and finally, to mark its *temporary* character, he imposed it for *seven* years. The most noticeable of the reforms he was enabled to effect through this increase of direct taxation was the abolition of the soap tax. The reasoned statement for the abolition is one of the best examples of critical analysis and has been quoted and requoted as a model of exposition in form and substance. The interpolation in the main argument, "To extinguish the African slave-trade, repeal the soap tax," shows the touch of the master in firmness and delicacy.

At the same time 123 articles were set free from customs and 133 reduced. The Crimean War checked the progress of reform, but the final result was the reduction of the tariff to such a degree of simplicity that practically only four articles — spirits, tea, tobacco, wine — were retained for revenue, the rest of the tariff being either to

[1] Reprinted in Gladstone's *Financial Statements*, 1863.

support excise duties or to prevent substitution. The Budget of 1901, with an export duty on coal and an import duty on sugar, is the first retrograde step since the great reforms instituted in 1842. It ought, however, to be borne in mind also that for the first time in this Budget the revenue from direct taxation exceeds that from indirect, so that the proposals may, perhaps, be regarded rather as a change in the details of a method than in the substance of a principle.

§ 4. *The Incidence of Taxes on Commodities (Internal).* The incidence of taxes on commodities furnishes a good illustration of the general principles already examined.[1] If the tax is imposed directly on the consumer, it so far tends to check his demand. This check to demand so far will cause a contraction of supply when equilibrium is restored. The extent of the contraction will depend partly on the elasticity of demand,[2] which again depends on various factors (*e.g.*, the possibility of substitution) and partly on the conditions of supply. The ultimate effect on price will vary according as the commodity follows the law of increasing, diminishing, or constant return, and according as it is produced under free competition or under a complete or partial monopoly.

If the tax is imposed in the first place on the producer or the dealer, he will endeavour to shift it to the consumer, and whether he can do so or not depends upon similar conditions. In fact, theoretically it is a matter of indifference from whom the tax is collected in the first place, and practically the method of collection is generally only of importance as regards the real burden on the first imposition of the tax.

When the general conditions are so complex, it is only possible to illustrate the principal cases. It is generally said that a tax on a commodity must fall on the consumer because the producer must get the ordinary or adequate

[1] See above, Bk. V., Ch. X., § 7.
[2] *Ibid.*, Bk. III., Ch. IV., § 2.

rate of profit. This is no doubt the case of most importance practically, and for purposes of exposition the others may be treated as exceptions. Two assumptions are necessary, however, to establish the general case. The producer must be able to transfer his capital to some other employment, the product of which is not taxed; and the commodity must be sold previous to the tax at a price determined by competition, not by monopoly. In practice neither of these conditions is perfectly fulfilled — there is nearly always some degree of immobility and some degree of monopoly. In the long run, however, the supply of capital will be adjusted to the diminished demand, and probably the imposition of the tax will increase the degree of the monopoly.

This last consideration brings into view another effect of the taxation of commodities, namely, that the price will rise to the consumer more than in proportion to the tax. This, it is maintained, will take place because the supervision necessary for the tax will prevent various economies and improvements; the rise in price will check demand and contract supply, and there will thus be a farther check to economies and improvements; a large capital may be required to advance the tax, and this advantage to large capitals restricts competition and increases the power of monopoly and combination. There is no doubt a solid substratum of truth in these positions, as is abundantly proved in the history of British finance.

At the same time, however, the exceptions are of interest theoretically. If the commodity follows the law of diminishing return, the tax will cause a recession of the margin, and the marginal cost being less apart from the tax the price will so far rise less than by the amount of the tax. If, however, the commodity follows the law of increasing return, the price will rise through the contraction of supply more than in proportion to the tax. If there is a monopoly, in general the price will not rise to the full extent of the tax, and in certain cases it

may not rise at all, the whole tax falling on the monopolist.[1]

It is to be observed that the producer may, in certain cases, be able to shift part of the tax to wages as the contraction of supply will lower the demand for labour.

Ultimately, however, the relative net advantages of the kinds of labour involved must be restored, although if there has been a monopoly element in the wages the loss will not be recovered.

In all cases of internal taxation it is, of course, assumed that corresponding customs duties are levied on similar commodities and possible substitutes.

§ 5. *The Incidence of Import Duties.* The determination of import duties depends on the theory of foreign trade, and, in my opinion, is best worked out in terms of prices.[2] Suppose that a heavy import duty is suddenly imposed, the foreign producer will not send the product to the taxing country, if other free markets are open, unless the importer pays the tax. The payment of the tax will, however, check the demand, and there will be a consequent reaction on production. If the taxing country has been taking a large part of the foreign supply (a partial buyers' monopoly), the foreigner may be compelled to bear part of the tax to lessen his loss, and if the commodity is more or less of a producers' monopoly, or is produced according to diminishing return, the price to the taxing country will never rise to the full extent of the tax. If, on the other hand, the demand of the taxing country is relatively small, if supply can be readily adjusted, and if other free markets are predominant, the whole of the tax will fall on the consumer, and the price may rise more than by the amount of the tax, owing to the indirect influences already noticed. Most commonly the tax falls (with the surcharges) on the consumer, and it seldom happens that the conditions are such that it will strike the particular foreign

[1] See the theory of monopoly values, Bk. III., Ch. VII.

[2] See above, Bk. III., Chs. XXVII., XXVIII.

producer seriously. He will seek other employment for his capital or other markets for his produce. It must be remembered also that the case of a monopoly is much more rare than may appear at first sight. It does not follow that, because one country only produces a certain commodity, it is therefore sold at a monopoly price. In order that this may be done, there must be perfect combination amongst all the producers, as appears to be the ideal of modern trusts. But under modern conditions there are very few important commodities, if any (having regard to effective substitutes), which are confined to any one country, and a combination between producers of different countries is still more difficult to obtain.

The case of diminishing return is also practically of still less importance. If, for example, Britain imposed a tax on wheat, it is doubtful if any part of it would fall on the foreign producer.

When equilibrium is restored after the imposition of the tax, it is plain that the price in the taxing country will differ from the price in the producing country by the amount of the tax (and its charges) and the cost of carriage.[1] In general, the price will be determined by the conditions of supply and demand in the country of origin, and the taxing country as a rule has only a minor influence, relatively to the whole commercial world, upon the demand.

The ulterior effects consequent on the disturbance of international trade and the necessary readjustments will also, in general, be unfavourable to the country imposing the tax. The diminution of imports will check exports either directly or indirectly, since imports are paid for by exports. It is true that the productive power formerly employed in making these exports may be used to make commodities for the home market, and at the same time

[1] Omitting the case in which to retain the market a higher price is charged by an open or tacit combination to the consumer of the producing country than to the foreign importer.

also the taxation of the foreign products may lead to an increased demand for the products of home labour. This, indeed, is the foundation of one part of the theory of protection. At present, however, we are concerned with revenue duties. And it is clear that if before the duty the productive power of the country had been most advantageously distributed, the redistribution consequent on the duty must involve some loss. In brief, any import duty so far restricts the aggregate of foreign trade, and in general such a contraction is disadvantageous although there are exceptions.[1]

An import duty to be effective for revenue purposes must be supported by corresponding excise duties on the commodity and its substitutes. Similarly the commodity must be taxed whatever its use. Thus it is said that the new import duty on sugar will also fall on blacking into which molasses enters, and to some extent also it will fall on beer and ham.

§ 6. *The Incidence of Export Duties.* The imposition of an export duty on coal by the British government in 1901 has given a special interest to the general theory of such duties. The popular idea is that because a tax on an import falls on the home consumer, therefore a tax on an export will fall on the foreign consumer. But this argument omits two essential considerations. The export duty is not and cannot be supported by corresponding excise duties in the foreign country, and, secondly, the foreign country, instead of being a limited area, consists of the whole commercial world. Accordingly, to frame a case of an import duty which would correspond to an export duty we ought to suppose that the import duty is levied on the product of one foreign country only, whilst home producers and other foreign producers escape the tax. Suppose, for example, that wheat is taxed when imported into England from Russia, but not when imported from any other country, and not when grown at home. Does any one

[1] See above, Bk. III., Ch. XXVIII., § 7.

suppose that the British consumer would pay the tax on Russian wheat? It is clear that if the Russian exporters (including under that heading all engaged in the production, the transport, and delivery of Russian wheat in England) do not pay the tax, they cannot enter the British market — the British consumer will take other wheat.

If export duties fell wholly or mainly on the foreign country, it would surely be to the economic interest of all nations to adopt export duties.

But, as Professor Bastable[1] forcibly remarks, the complete abolition of duties on exports would hardly affect the finances of the European states, whilst anything that disturbed the revenue from imports would be the cause of grave concern to nearly all nations. If, however, duties on exports fell on the foreigner, whilst duties on imports fell on the home consumer, it would be astonishing that such a degree of self-renunciation should be practised by all the nations of Europe.

It is true that so long as the Mercantile System prevailed the main idea was to discourage imports and to encourage exports so as to promote a favourable balance of trade. But even under that system there were many and heavy export duties and, at any rate, the mercantile theory of a favourable balance has long since been abandoned even by the most protectionist nations.

The mercantilists imposed specially heavy duties on certain exports, *e.g.*, on the raw materials of manufacture and on the instruments of production. These duties, however, were intended to check exportation rather than to yield revenue; and in the extreme case, which was very common, they were intentionally prohibitive. The idea was to preserve peculiar national advantages for the home producer, and in some cases to cheapen important commodities to the home consumer.

The case of revenue export duties may be first considered. No doubt on the first imposition the trader will ask

[1] *Public Finance*, p. 514.

the foreign consignee to pay the duty, but whether the foreigner will consent to do so, in whole or in part, depends on the possibility of his obtaining substitutes and on the intensity of his demand. With the extension and development of commerce and the advance of the practical sciences bearing on industry, the possibility of finding substitutes is vastly increased and the intensity of demand is proportionately lessened. If, however, the foreigner can obtain his supply from other sources, plainly he will not pay the tax. Accordingly the producers of the export (including the whole series engaged in completing the act of production by delivery into the hands of the foreign consumer) must pay the tax, or the trade must cease or be greatly diminished. If the tax is not very heavy and the export has been considerable, the producers may bear the tax, because the attempt to get rid of the supply formerly exported will lower the price. The distribution of the loss between the various productive agents (including those engaged in transport) will depend on the conditions affecting wages and profits in the particular country. In general, however, there will be some decrease of supply, and after a period of disturbance the relative advantages of the particular industry will be restored. The variations on this general position depend on the conditions of production, whether according to constant, increasing, or diminishing returns, and on the degree of competition or monopoly. In the case of constant return the decrease of supply will leave the price unaltered, with increasing return it will rise, and with diminishing return there will be some fall in price. In the latter case also there will be a fall in rent.[1]

If the taxed commodity comes under the rare category of national monopoly, it is possible that the whole of the tax may fall on the foreign consumer. The term "monopoly," as in the case of customs duties again requires a

[1] So many examples have already been given of the operation of these "laws" that a detailed deduction seems unnecessary.

careful interpretation. Even supposing that only one country, (say) England, produces a particular commodity, (say) smokeless coal, that is a "necessary" to other nations, it will not command a monopoly price unless all the producers make an effective combination.[1]

And, moreover, if there were such an effective combination which had secured a monopoly price, the export duty would fall wholly, or to a great extent, on the monopolists. If the trade would bear a higher price and yield a greater return, why did the traders not impose the tax for their own benefit?

If, however, the producers of the so-called monopoly had been competing with one another, then it is quite possible that the imposition of the export duty may cause a rise to the foreign consumer, and if his demand is highly inelastic, or he must get his supply *quand même*, he will pay practically the whole of the tax.

In this case there would be no check to the export trade, and accordingly no secondary disturbance of the home trade.

We may now consider the case where the main object of the duty is to check exportation — rising in the extreme case to prohibition under severe penalties. Here, no doubt, if the duty is high enough to be effective, there is on the first imposition a fall in price through the increase of supply in the home market. As a consequence of this fall in price even on the portion still exported the foreigner only pays (or rather suffers from) part of the tax. The ulterior effects of this fall in price will depend on the conditions of production. There can be little doubt that the old prohibition of the export of wool lowered the price, prevented improvements in quality, and also lowered rents.

To apply the general argument to the export duty on coal proposed in the British Budget of 1901 it would appear that just as there are fagots and fagots, so also

[1] See above as regards import duties.

there are coals and coals. Some of the coal exported from this country is subject to severe foreign competition. It is not of a monopoly quality in any sense of the term. The foreigner is not likely to pay a shilling a ton more for the coal when he has other sources of supply free. If, however, the coal is of that exceptional quality which admits of no substitution (which used to be the fond and fallacious belief regarding English wool), and if the producers have not already by a tacit or open monopoly exacted the highest profitable price, then on this coal the tax may be transferred to the foreign consumer, at any rate for the most part.

It must be observed also that if the tax is specific and not *ad valorem*, it will fall with greatest force on the cheaper kinds or the non-monopoly qualities. In these qualities, accordingly, it is still more probable that the foreigner will not pay the tax. Owing to the conditions affecting labour and capital, it is possible that the home producers may pay the tax to preserve their market, and then by a tacit or open combination they may partly recoup their loss by charging higher prices at home, and they have latterly had considerable practice in raising prices in this way. If, however, the producers cannot, and the foreigner will not pay the tax, there must be a diminution of exports, and indirectly imports and freights will suffer. On the other hand, there will be some fall in price in the home market, and users of coal (*e.g.*, iron masters) will gain. It is possible that the price may fall nearly to the extent of the tax, in which case the foreign trade would revive.

On the whole, the wisdom of this export duty is very doubtful. The estimated yield, supposing exports remain the same and no rebates are allowed, is only equal to a penny in the income tax. The disturbances of trade will involve a national loss, a comparatively small portion of the tax will fall on the foreigner, and to attempt to impose part of a war tax on the foreigner seems beneath the dig-

nity of a great nation. The great merit of our free-trade policy has been its simplicity; many theoretical exceptions have been admitted from Adam Smith downward; but they are like the exceptions to telling the truth which serve rather to illustrate the great principles of common sense morality than to affect practical rules of conduct.

If the main object of the duty were to protect our coal supplies,— especially those of superior quality,— the duty is far too small to have any considerable effect. When Adam Smith wrote the duty on coal was 5*s*, per ton, and McCulloch in a note states that instead of being abolished it ought to have been raised to 7*s*. 6*d*. A duty of this amount would probably not yield much revenue, but it would so far counteract the exhaustion of the supply, and in the homely language of the proverb we should keep "our ain fish guts for our ain sea-maws."

§ 7. *Rules for Taxes on Consumable Commodities.* The general canons of taxation have been applied to frame special rules for taxes on commodities.[1] (1) Only such taxes should be imposed as will yield a considerable revenue, or, in other words, the taxes ought to be *productive*. The expense of collection is considerable, and the indirect losses consequent on interference with the natural course of trade are often still greater, so that taxes with small returns may easily involve a net loss from the national point of view. The principal exception to this rule is when the tax is levied not solely for revenue, but for some ulterior purpose, *e.g.*, to enforce sumptuary laws, or to assist in police regulations, or to foster home industries by protection. Mill places first in his list of rules that luxuries (especially vanities) ought to be as highly taxed as possible; but as Adam Smith had observed long before, such taxes are in general unproductive. Taxes on commodities that are to yield a large revenue must fall on masses of the people, *e.g.*, taxes on spirits and beer, as contrasted with wine,— on tea and sugar, as contrasted

[1] *Cf.* Mill, Bk. V., Ch. VI., § 3.

with carriages and plate. The object of revenue must be clearly distinguished from the ulterior objects. It is often said that the British taxes on stimulants are intended to check consumption; but in 1901 the chancellor of the exchequer refused to raise the duties on the very ground that the limit of productivity had been reached, and in general such duties unduly encourage inferior qualities.

(2) The canon of *equality* enjoins that, if possible, taxes should be *ad valorem* and not specific. There are, however, great practical difficulties in differentiating commodities *ad valorem*, and in general such duties encourage inferior qualities. This same canon also has a wider application. If smaller incomes are exempt from direct taxation, they may so far be expected to bear a larger share of indirect. And again, if one set of consumers (*e.g.*, of beer) are taxed, other consumers (*e.g.*, of tea) ought to be taxed. One argument for extending the number of indirect taxes is based in this principle of equality. The rule that the area covered by the tax should be as wide as possible also depends partly on equality, but partly also on economy.

(3) The canon of *certainty* enjoins that the tariff should be clear to all concerned. One great difficulty in *ad valorem* duties is the uncertainty as regards tests of quality. The possibility of readjustments of the tariff disturbs trade, and accordingly the term of years fixed in commercial treaties is so far advantageous.

(4) The canon of *convenience* finds its chief illustration in taxes on commodities. The piecemeal payment, to recall Adam Smith's graphic description of the coal-heaver and his pots of porter, is highly convenient. A lump sum for a license to drink porter would be much more trying, and once paid would promote thirst unduly. A large revenue may be raised from commodities when the limits of productiveness by direct taxation have long been left behind. Mill gives as his second rule that when possible the tax should be levied directly from the consumer. On

the ground of economy this is perhaps theoretically justifiable, but it breaks down as regards convenience. It is much more convenient to the authorities and to the taxpayers to levy import and customs duties than to attempt to collect the taxes directly from consumers. Theoretically, the old proposal of Sir Matthew Decker to impose licenses on all kinds of consumption is not unreasonable, and licenses to drink alcohol have recently been revived in some American States as formerly in Holland people paid for a license to drink tea; but the American legislators may be referred to Adam Smith's criticism.

(5) The canon of *economy* also finds frequent illustration — both positive and negative — in taxes on commodities. Such taxes are more costly than appears at first sight. The official statements of the cost of collection of such taxes cannot include the indirect cost through the restraints imposed upon trade.[1] Consider the case of the British customs duties. A large number of officers are required not simply for collection, but to prevent evasion. It is quite clear that if goods could be landed at any point, collectors would be required at every possible landing-place. Accordingly, only certain ports are allowed the privilege of importing goods liable to duty. Again only some of these ports are especially privileged as regards certain commodities (*e.g.*, wine and tobacco) in which special tests are required. It is obvious that the limitation of imports also limits exports. The "bonded warehouse" system, which is adopted so as to postpone payment of the duty until the commodity is required for consumption or is withdrawn for re-exportation, although in itself of great advantage, necessarily leads to still further interference: only certain ports are warehousing ports, and only certain buildings are set aside for the purpose. A general objection to this system of licensing ports is that the customs commissioners cannot find out except by trial what ports

[1] *Cf.* Cliffe Leslie's Essay on Financial Reform. Cobden Club Essays (1871–1872).

will be the best to select. Manchester, for example, after much opposition, in 1862 obtained the privileges of a port, and in seven years in the amount of customs collected it was seventh in the list. One of the main reasons why the tea trade was concentrated chiefly in London was that other ports had not the requisite warehouses. A minor, but sometimes a serious, evil, is that the warehouses are inconvenient and cramped. The interference, however, does not cease at the ports. There must be bonded warehouses in inland places, otherwise the merchants must prepay the duty or run the risk of being short of supplies. Thus again there must be a limit to the privilege. In some cases the imposition of a customs duty requires for its protection a prohibition of production in the home country (*e.g.*, tobacco), and in all cases corresponding excise duties must be levied and duties on all possible substitutes.

As regards excise duties there are peculiar sources of loss. The necessary surveillance checks improvements directly, and indirectly the restrictions encourage monopoly, which again checks improvements. The rise in price consequent on the duties also diminishes consumption and thus contracts the supply, and again various economies are prevented. In some cases the protection of the excise duties leads to prohibitions of certain processes and thus renders it necessary to import certain qualities from abroad. The evils incident on heavy excise duties have been well illustrated by Porter in the case of glass.[1] Between 1801 and 1833 the population increased by one-half, but the consumption of glass only by one-eighth. When the duty was increased the consumption fell, and when the duties were lessened the revenue increased. A manufacturer who had improved bottle-glass was stopped in his operations because the revenue from flint glass, which was more highly taxed, might suffer ; and, on the other hand, owing to the regulations, glass could not be made suffi-

[1] *Progress of the Nation*, pp. 155–159.

ciently fine for optical instruments, and had to be imported.

Similar evils resulted from the excise duties on candles, soap, and paper; there were few improvements relatively to untaxed manufactures, consumption was checked, and the excise duties were, in effect, duties on light, cleanliness, and knowledge.

There were besides indirect taxes through the effects on subsidiary industries. We thus again arrive at the rule that as few articles as possible should be taxed; and that they should be so taxed as to interfere as little as possible with the natural course of trade. On the ground of their productiveness Adam Smith allowed that there might be good reasons for continuing the taxes on salt, leather, soap, and candles, although they are necessaries. Luxuries may be taxed more heavily (*e.g.*, spirits and tobacco).

On the principle of economy the area of taxation should be as wide as possible. Thus customs duties collected at the ports of the United Kingdom not only cost less in the collection, but have far less disturbing effects on trade than if similar taxes were imposed in all sorts of local areas. Hence, with few exceptions, local taxes on commodities have disappeared, though *octroi* duties still prevail abroad. The German Zoll-Verein was one *causa causans* of the empire. Generally the adoption of a uniform customs tariff over a large area (*e.g.*, as in the United States), means the adoption of free trade within that area.

§ 8. *Direct and Indirect Taxes Compared.* In spite of the evils that are associated with indirect taxation, and are only partially prevented by fiscal improvements, it has been found necessary by all the great nations of modern times to retain customs and excise duties as an important part of the tax system. In England, Russia, and France the excises and customs yield about half the national revenues. In Germany the Imperial legislation regulates the customs and excises on salt, tobacco, spirituous liquors,

beer, and sugar, and with three[1] exceptions the constituent States do not tax these things. In the United States the federal government draws most of its revenue from excises and customs in nearly equal proportion. In comparing direct and indirect taxes both must be considered as parts of the whole tax system. The chief merit in either case is that the one remedies the defects of the other. Both are simply methods of taking wealth from private persons for public purposes. In favour of direct taxes it is argued that the contributors know exactly what they are paying, and accordingly, under a system of representative government, it is supposed that they will exercise a judicious check on expenditure.[2] On this ground it is a matter for regret that in Britain the limit of exemption from the income tax has been placed so high. On the other hand, however, it is maintained that direct taxation of incomes below a certain minimum involves disproportionate sacrifice, and the mode of payment causes a still greater loss. Direct taxes cannot be collected piecemeal. It was found in Germany that in the case of smaller incomes direct taxes were paid by selling and pawning the furniture — an evil which still prevails in spite of the rise in the limit of exemption. Except on their first imposition the amount of indirect taxes is not known by the taxpayers. An old tax is no tax in many senses — *inter alia* it seems to form part of the natural or cost price. How many of the consumers of spirits and tobacco have any idea of the portion of the cost that depends on taxation? This concealment of the burden, though it may be convenient to the taxpayer, is likely to promote extravagance on the part of the government. Direct taxation in many forms is liable to the frauds incident on self-assessment or other modes of evasion. The British Income Tax has furnished

[1] Bavaria, Würtemberg, and Baden.

[2] The answer, that with a large direct taxation the voters would unduly cramp expenditure, is at present in all countries of purely hypothetical interest.

startling examples, and the American property tax is still more notorious. On the other hand, taxation of commodities is a direct encouragement to adulteration and to smuggling. A certain glamour formerly attached to the doings of the old "free-traders," but historically smuggling was associated with incredible brutality [1] and degraded the whole tone of public morals. When direct taxes are submitted to by the payers without any serious protest, if the cause of expenditure is approved, it is evidence of a high ethical standard.

Once a system of taxation has become firmly established with an adjustment of the relative parts that commends itself to public opinion, any changes in taxation should be made so as to leave this harmony as far as possible undisturbed. The proposals of the British Budget of 1901 sinned against this rule. - The natural compensation to the income tax is found in the succession duties as Mr. Gladstone stated in 1860, and since 1894 the adoption of the principle of gradation according to the value of the estate, has compensated the income tax to a much greater degree than when the gradation depended only on the degree of kinship. In this Budget, however, though the income tax was increased, there were no changes in the succession duties. On the other hand, it must be granted that the imposition of the sugar duties was intended solely to keep up the proportions of the system.

[1] See details in a curious book entitled *Smuggling Days and Smuggling Ways.*

CHAPTER XIV.

FREE TRADE AND PROTECTION.[1]

§ 1. *Meaning of Free Trade.* Free trade is sometimes used in a loose popular sense as equivalent to *laisser-faire* or non-interference, but historically it refers to a particular policy as regards international or foreign trade. In this sense its principal characteristics are absence of differential duties and of artificial encouragements such as bounties by which the home producer would be favoured as compared with the foreigner in the same industry. The essence of free trade is equality and uniformity in the financial treatment of home, colonial, and foreign produce of the same kind. Thus taxes on commodities for revenue purposes only, although they are of foreign origin exclusively (*e.g.*, tea), are not held to infringe the rule, nor are duties on imports, provided there are corresponding excise duties on similar products. Similarly, absolute prohibition of imports, if equivalent penalties are imposed on the home production, does not offend against the principle of free trade (*e.g.*, immoral books or prints). The principal practical difficulty arises in the interpretation of "substitutes" and "similars." It is not easy to find a fair common measure for home and foreign articles that differ in quality. Thus with wines, beer, and spirits the alcoholic test alone is obviously unfair; and a simple *ad valorem* tax is also inequitable, because

[1] The literature of Free Trade and Protection is too extensive for notice in a general work. In the present chapter the object is simply to indicate the method of applying the arguments and to attempt a judicial estimate of their value.

the effect on demand will vary in different cases. In a sense, indeed, any taxation of foreign goods which cannot be produced at home (*e.g.*, tropical produce) gives an artificial encouragement to home industries. If tea and coffee are taxed, the use of aerated waters and home-made wines may be encouraged. The case of drawbacks presents similar difficulties. If the drawback is exactly the equivalent of the duty, it simply restores trade to the state of freedom; but if it exceeds the original tax, it degenerates into a bounty, and, indeed, most bounties on exports are disguised in the form of drawbacks.

§ 2. *Free Trade and the Consumer.* If the question be regarded solely from the point of view of the consumer, it is easy to establish the general case in favour of free trade. With freedom of competition no foreign commodity would be imported unless it could be sold at least as cheaply as when produced at home, and in general it may be said the foreign article would only gain an entrance by being offered at a lower rate. Thus to discourage importation by taxes would be to raise prices. Free imports encourage cheapness and abundance. It may also be argued that free exports give the greatest encouragement to free imports, whilst bounties on exports by lessening the supply at home raise prices to the home consumer and lower them to the foreigner.

But even to this simple aspect of the question there are exceptions. Present cheapness may be sacrificed to ultimate dearness, as in the rapid depletion of peculiar natural resources (*e.g.*, coal and iron, and even the soil itself); and, theoretically, bounties on any commodities that admit of increasing return with larger production may lower the price more than by the amount of the bounty. Cheapness also may lead to a more than proportionate degradation in quality, and in brief there are all the cases to be considered in which the consumer is not the best judge of his own interests. On the whole, however, if the consumer only is considered, and the indirect effects

on production are left out of the account, free trade is generally advantageous and the exceptions are of relatively small importance.

It may be objected, however, that all cheapness is relative to the means of purchase, that is, to incomes of the consumers, and that in the last resort incomes depend upon production in the large sense of the term.

§ 3. *The Protection of Home Industries: General View.* At first sight it seems plausible to assert that if foreign products are wholly or partially excluded from the home markets, there must be so much more employment for home labour and capital, and thus an increase of wages and profits. The refutation of this fallacy in its crude form is one of the greatest triumphs of the political economy which the successors of Adam Smith rendered simple and popular. The main positions in the refutation are indeed derived from Adam Smith. Bastiat's petition of the candle-makers against the sun, praying for the closure of windows in order that the production of artificial light (and all the subsidiary industries) might be encouraged, was probably suggested by Adam Smith's illustration that wine could be made from grapes grown in Scotland.

Again, that industry is limited by capital, and that a government cannot directly augment capital, and, consequently, at the best can only determine the direction and not the volume of industry, is also taken directly from Adam Smith. Protection on this view may increase employment in any favoured industry, but it can only do so by withdrawing productive power from other industries in which the country has a greater natural advantage. The great maxim of free traders that imports must be paid for by exports amounts to saying that if foreign labour is encouraged by the free admission of foreign goods, home industries must be equally encouraged because goods to an equal value must be exported to pay for these goods. Conversely, protection by preventing

imports must discourage exports. In any case, also, the very object of protective duties is to raise the prices of the protected products in the home markets, and accordingly the consumers so far suffer and they have less to spend on "other things." Not only do the labourers lose as consumers, but protection to some industries leads to a lessened demand for the products of other industries, and "the mischief circulates."

There is no doubt that these elementary arguments embody important practical truths which, as history proves, are liable to be overlooked. At the same time, however, the case for free trade has been greatly weakened by neglecting to make clear the assumptions implied and the qualifications to which they give rise.

§ 4. *The Assumptions of the General Argument for Free Trade.*[1] In the *first* place, it is assumed that labour and capital can be turned without loss or difficulty from a decaying into a thriving industry, and that if any home product is displaced by foreign competition, "something else" can be made immediately with the displaced productive power. But it may be objected that every industry requires a certain amount of specialised capital and peculiar skill and training. There is so much force in this objection that Adam Smith himself pointed out, that freedom of trade should only be restored by slow gradations if the employment of labour would be endangered. And, conversely, it may be argued that "temporary" protective duties should be enforced when an old industry is suddenly attacked by foreign competition. The difficulty of the transference of capital, however, is likely to be exaggerated, and the argument for vested interests may be turned round. One great practical objection to "temporary" protective duties — for whatever reason granted — is the danger of creating vested interests which cannot be disturbed without some kind of compensation.

[1] *Cf.* Bastable's *Theory of International Trade* (3d edition) Ch. VII.

Secondly, the popular general argument assumes that the capital and labour of a country must remain within its own borders. This position again is in the main so true that it is taken as the basis of the theory of international trade. But the appeal to history also shows that industries may migrate, not only from place to place within a country (an "economic nation"), but also from country to country.[1] Thus, foreign bounties might destroy some important home industry which, even after the removal of the bounties, the country might never recover. More generally a free-trade country placed in the midst of a group of protectionist countries is liable to disturbances and attacks which may vitally injure its industries.

Thirdly, this last consideration is important in connection with the maxim that imports are paid for by exports. No doubt all trade is reciprocal, but it may be said that unless a country's exports are sent by the best route to the best market, they cannot purchase so great a quantity of imports, and we may more reasonably regard the export trade as active and the import trade as passive than the converse. If, for example, to take an extreme case, other nations or an important combination effectually excluded English exports from their markets, England would be unable to pay for her imports, and imports must cease.

Practically, no doubt, the foreign countries concerned could not afford to lose the English market for their goods if the closure were applied suddenly and extensively, but the danger lies in the cumulative effects of foreign protective duties, and the gradual exclusion of English goods from foreign markets. The natural remedy would appear to be found in commercial treaties on a reciprocity basis, but the great difficulty for the free-trade country is that it has no particular advantages to offer in exchange.

Fourthly, the general argument assumes that so long as the capital of a country can be employed with equal

[1] On the migration of labour and capital, see Bastable, *op. cit.*, Ch. X.

profit, the method of application is a matter of indifference. Not only was this position not approved of by Adam Smith, but it was distinctly controverted by him. This is shown in the most striking manner by his treatment of the monopoly of the colonial trade. The key to the argument is that this monopoly raised the general rate of profit throughout the country, and thereby injured the nation as a whole, and each of the great industrial classes individually. This high rate of profit artificially created by the monopoly, in Adam Smith's view, lowered directly wages and rents, and, indirectly, the aggregate income from capital.

Adam Smith used as his principal test of the advantages of employing capital, not the rate of profit to be obtained, but the amount of labour employed in the home country, and the benefit derived from the direct consumption of the capital. Thus, under natural conditions, any home trade was more advantageous than any foreign trade, the near trade was more advantageous than the distant, the direct trade of consumption than the roundabout, and the roundabout trade of consumption was more advantageous than the carrying trade. For some time past, in the United Kingdom, there has been a superabundance of capital, that is to say, more than sufficient for all these modes of employment, in spite of continuous large advances to foreign countries. And it must be observed that Adam Smith himself looked upon a flourishing carrying trade, that is without artificial encouragement, as a species of high-water mark in the tide of general prosperity. But the foundation of his argument remains unshaken: profit is only one element in advantage.

Fifthly, the popular argument, that if protection is good for one country against another, it must also be good for one district, town, etc., against others in the same country, which is supposed to be a *reductio ad absurdum* of protection, is, in reality, quite irrelevant and generally fallacious. From the national point of view, the migra-

tion of industries within its borders is a matter of indifference, or rather, is, in general, a national gain. Thus the abandonment of the mediæval protectionist system in which every town protected itself against all others, and insisted on its "ancient customs," was accompanied by a great expansion of industrial power; but, at the same time, whilst some places waxed, others waned. And, although this parochial protectionism has disappeared, the commercial rivalry of nations is as strong as ever, and the land would fare ill from which the capital and labour migrated, though the rest of the world might gain. There is not only the possibility of a "something else," but of a "somewhere else" to be considered; and herein lies the danger of organised attacks by foreign competitors. The recent purchase of the Leyland line by an American syndicate, though relatively a small matter in itself, may be regarded as a significant symptom of a possible danger.

The popular argument that the natural employment of productive powers, which, at the time, is most profitable, is also both immediately and ultimately the most advantageous to a nation, also breaks down theoretically when applied to particular cases.

§ 5. *Theoretical Exceptions to Free Trade.*[1] The principal theoretical exceptions to free trade may be deduced from the possible disadvantages of foreign trade to a particular country, the subject of an earlier section in this work,[2] and they are properly considered in connection with the general theory of foreign trade. At this stage, where we are rather concerned with the advisability of giving practical effect to the theory, a simple enumeration of the important cases must suffice.

It is said, *first*, that every nation should retain for the benefit of its own people any peculiar natural resources

[1] "*Special cases for the application of protection*" would perhaps be a better title for this section. Compare Bastable's *International Trade*, Ch. IX.

[2] Bk. III., Ch. XXVIII., § 7.

and if possible any inventions and artificial means of production. In former times there were heavy duties, and in some cases prohibitions, on the exports of various raw materials (*e.g.*, wool, coal, etc.) and also on the instruments of production, including the living instrument man. This policy, however, was definitely abandoned by Britain in 1845 and the export duty on coal in 1901 was intended by its originator not so much to check exports as to yield revenue. It is impossible as regards the remote future to tell whether the peculiar value attached to natural resources will continue whilst the immediate injury to trade is obvious. Just as sea-coal displaced charcoal, so water power and electricity may displace steam; and as regards the export of machinery, prohibition is useless when things can be imitated, and the limitation of export would check development.

A *second* exception to free trade has been urged on the ground of national independence. Adam Smith apparently approved of the principle of the Navigation Acts,[1] although it is generally forgotten that when dealing with colonial policy[2] he strongly condemns all the regulations and machinery by which this principle was carried out. And as a matter of fact this was the first part of the mercantile system to be severely attacked. This argument of national independence was chiefly relied on by the opponents of the repeal of the Corn Laws, but it now needs no showing that Britain has gained far more in military strength through the growth of wealth and population than she has lost by the contraction of corn-growing.

Again the independence of nations is mutual, and the best guarantee for peace is the extension of commerce.

A *third* exception to free trade is especially applied to new countries. It is argued that protection is necessary to promote manufactures and the growth of towns, and that such development is necessary even for the encouragement of agriculture, *e.g.*, wheat and frozen meat may be

[1] *Wealth of Nations*, Bk. IV., Ch. II. [2] *Ibid.*, Ch. VII.

exported, but not all the by-products of agriculture, and in any case there is a loss in the cost of carriage. That the commerce of the towns causes the greatest improvements in the country, and that the nearer the consumer is brought to the producer the better, are favourite positions of Adam Smith.

It may be answered, however, that temporary protection is impossible owing to the creation of vested interests, that new countries especially require capital, which is repelled and diminished by protection, and that the artificial forcing of new industries is not advantageous in the long run. Professor Taussig[1] has shown by a detailed account of the development of the cotton, woollen, and iron manufactures in the first part of the nineteenth century in the United States that, though all the conditions were favourable to the protection of young industries, little if anything was gained.

A *fourth* exception is the celebrated case of retaliation. This has been generally approved, provided the object is to compel the foreigner to take off objectionable duties. The practical objection, however, is that retaliation is likely to provoke further retaliation rather than reciprocity.

A *fifth* exception to free trade is found in the alleged necessity of protecting highly paid labour against the pauper labour of foreign countries. It may be replied that high wages do not make dear labour, and that they promote efficiency; and if protection is necessary to keep up the rate of wages, the higher wages are a tax upon the consumers of the article produced and in general the higher nominal wages are gained at the expense of a fall in real wages. Still, theoretically, this exception is valid under certain conditions, and cheapness to the consumer may be of less importance than the well-being of the producer.

A number of exceptions to free trade are to a great

[1] *Tariff History of the United States*, p. 61.

extent political and social, and only partially economic in the narrower sense. This is partly true of the cases already noticed, and in other cases is still more marked. Sometimes the object of interference is to injure other nations, as the Navigation Acts were mainly directed against the Dutch; and sometimes conversely to conciliate by conceding advantages, as in the case of the great French Commercial Treaty of 1860. The exclusion of certain foreign products is sometimes justified with the view of improving the quality of home labour. No nation would be content to remain as a hewer of wood and grower of corn, and the higher the forms of industry in which the workers are engaged so much the better for the nation as a whole. The great argument of Frederick List is that protection is necessary for social development.[1]

It is assumed that if foreign wares of the higher class are excluded, they will be produced at home by native artists and craftsmen. It is, however, at least as probable that the absence of foreign competition would check development, and that the best way to promote the higher forms of industry is not by the simple process of exclusion, but rather by improvements in the education of the people.

The natural result of free trade is to stimulate competition, invention, and variety of enterprise, whilst the natural result of protection is to establish routine methods.

Finally, there are certain exceptional conditions under which it is theoretically possible by the judicious manipulation of duties to extract a certain amount of revenue from the foreigner. Such cases occur when the country in question has either a buyer's or a seller's monopoly; in the former case it may gain by import, and in the

[1] *Cf.* Professor Patten, *The Economic Basis of Protection*, p. 7: "The older doctrines of protection were short-sighted in that they sought protection merely for specific ends. . . . Protection now changes from a temporary expedient to gain specific ends to a consistent endeavour to keep society dynamic and progressive." But it may be rejoined that this is the final cause of free trade.

latter by export, duties. Technically, duties of this kind infringe the general maxims of free trade, and practically they are of little importance, and, so far as practicable, are likely to lead to retaliation and to foster national animosity. Taxing the foreigner is very like shearing the wolf.

On the whole, then, it appears that, at any rate, in the case of highly developed nations, although there are many cases "worthy of deliberation," there are very few worthy of adoption. And this view is strengthened by the negative argument in favour of free trade and by the appeal to experience.

§ 6. *The Negative Argument for Free Trade.* It is one thing to allow that provided a government were perfectly wise and perfectly powerful — in brief, a *deus ex machina* worked by perpetual motion — it might impose such taxes at its frontiers as would not only yield a revenue in some cases, but in others would assist in directing the labour and capital of the country into the most advantageous channels; but it is quite another thing to admit that any government is capable of managing the affairs of a great nation in this way. Those who quote Adam Smith for his theoretical exceptions, forget that he always laid most stress on the negative side of his argument; that is to say, on the weakness and incapacity of governments. His final opinion is that the statesman who should attempt to direct private people in what manner they ought to employ their capital, is guilty of dangerous folly and presumption. This opinion is confirmed and illustrated by the appeal to history elaborated in the fourth book of the *Wealth of Nations*. And, if here and there a few fragments of the old policy have been rescued from the general wreckage by the labours of subsequent writers, the cumulative effect of the argument has hardly been weakened. Nor has it been much affected by the history of the nineteenth century, if in the interpretation the fallacy of *post hoc ergo propter hoc* is avoided. In the United Kingdom

there can be little question that the rapid industrial development that has occurred was only possible through free trade. And, as regards the United States, it must be remembered that the immense area over which internal free trade prevailed was amply sufficient to secure most of the benefits of free competition. Similarly, the recent experience of German trade is associated with the Zoll-Verein over a wide area. Professor Taussig concludes his excellent history of the tariff in the United States with the reflection that "the permanent retention of the extreme protection, which is the unexpected residuum of the war troubles, should not be permitted; proposals, such as are occasionally brought forward for the further increase of protective duties, are to be uncompromisingly opposed; and a careful and judicious pruning of the present duties is the part of sound policy for the immediate future." The recent developments in America of the trust system have strengthened this opinion, and the enormous increase of American exports is likely to open the eyes of American consumers and producers to the advantages of free imports. The authority of List himself could not be advanced in support of protection in the United States under present conditions. After enumerating[1] the maxims of protectionism by which he conceives (contrary to Adam Smith) that England obtained her commercial supremacy, List concludes with a remarkable passage that seems precisely applicable at present, both to the United States and to Germany. "It is a very common clever device, that when any one has obtained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith. Any nation which, by means of protective duties and restrictions on navigation, has raised her manufacturing power to such a degree of development that no other nation can sustain free competition with her, can do noth-

[1] *National System of Political Economy* (translation), p. 366.

ing wiser than to throw away those ladders of her greatness." List may be wrong in his interpretation of history, as he was certainly wrong in overlooking the intense patriotism of Adam Smith; but no writer has presented the case for protection with such vigour and success, and what has been abandoned by so eminent a supporter of protection is not likely to receive much support from other economists.

In conclusion, one other aspect of the negative argument may be emphasised. As regards most countries, the total foreign trade is a minor part of its whole trade. Even in the United Kingdom there are at present fewer persons employed in all the textile trades than in agriculture. The aggregate value of the receipts of the railways of the United Kingdom are about equal in amount to the total value of yarns and textile fabrics exported, which again is about one-third of the total exports.

And not only is the foreign trade only a minor part of the aggregate trade of most nations, but the utmost effect of artificial restraints and encouragements is relatively still less. Protective duties and bounties, at the best, can only direct the employment of a comparatively small amount of the labour and capital of a country; the greater part will be employed according to the natural and acquired advantages of the country relatively to those of other countries. "The tariff system of a country is but one of many factors entering into its general prosperity."[1]

[1] Taussig, *op. cit.*, p. 121.

CHAPTER XV.

CHARACTER OF PUBLIC EXPENDITURE.

§ 1. *Importance of determining Principles in Public Expenditure.* It has already been observed[1] that public expenditure has received much less attention than public revenue, whether at the hands of scientific writers or of practical statesmen. Yet, to say the least, the two subjects are of coördinate importance. "The question of expenditure," says Professor Bastable, "is just as much a financial problem as that of revenue. Neither in theory nor in practice is it advisable to separate them completely." The opinion of Mr. Gladstone[2] is still more emphatic, "Good finance consists more in the spending than in the collecting of revenue."

That there must be some general principles guiding public expenditure, whether formulated or not, is obvious from one very simple consideration. Public expenditure is limited by public revenue, and the greater part of revenue (under actual conditions) is limited by the productiveness of taxes,[3] by the consent of the taxpayers, by the indirect effects on the productive powers of the country, and various other economic and political facts, which together place an insuperable barrier to the indefinite expansion of taxation.

The objects of public expenditure on the other hand are many in number, and in no case is it possible to reach the satiety point. Every public department is constantly crying out for more, and every social reformer is crying out for fresh, expenditure. There is thus a perennial

[1] See above, Ch. V.

[2] Sir A. West's *Recollections of Mr. Gladstone*, Vol. II., p. 309.

[3] The industrial domain of the State is best considered separately.

struggle between conflicting claims,[1] *e.g.*, the navy and army, education, poor relief, sanitation, etc., and it is difficult to decide on the best method of distribution. The whole of our actual imperial revenue might easily be spent on defence, or on education, or on poor relief, and still leave unsatisfied demand.

And yet Sir Edward Hamilton, in one of the most valuable official reports of recent years,[2] observes with truth that the old cry for "retrenchment" on the part of the government of the day is no longer heard.

It is quite true that the actual normal expenditure in any year is largely determined by previous legislation and by historical conditions. There is, for example, the interest on the national debt, and there are various political obligations at home and abroad. But this recognition of the continuity of national life and of the influence of the past does not dispense with the appeal to principles any more than in the case of taxation. There are new objects constantly arising and old objects decaying, and expenditure ought to be readjusted in various ways. Under a system of popular government (with expenditure constantly increasing) a reference to principles is more than ever necessary. There are also questions of fundamental importance regarding the best methods of expenditure, and we ought to consider (as in taxation) the indirect as well as the direct effects. And indeed, as already suggested, the treatment of taxation may in almost every particular be made the basis of a similar treatment of expenditure.

§ 2. *The General Characteristics of Public Expenditure.* Just as taxation is *compulsory*, from the point of view of the sovereign power, so also from the same point of view public expenditure may be said to be *arbitrary*. If, however, we trace the historical development of taxation and expenditure, we find that just as the compulsion of the

[1] *Cf.* Cohn's *Finanz-Wissenschaft*, § 153.

[2] Introduction to *Memoranda on Imperial and Local Taxes* (1899).

former has been modified by the representation of the taxpayers, so also the control of expenditure in the interests of the public has been substituted for the arbitrary caprice of the sovereign power. The principle of no expenditure without the consent of the representatives was, however, only converted into a maxim of finance long after its analogue in taxation had been accepted. As early as the fourteenth century, in England, a socialistic poet[1] could say with truth, —

> The king taxeth nat his men
> But by assent of the comminalté.

But though in the same century there were the beginnings of "inquisitions" into expenditure, the principle of appropriation of supplies was not definitely established till after the Revolution of 1689.[2]

Again, the ancient rule in England, that all proposals for expenditure must come from the crown, which had its origin in the mediæval conception of sovereign power, has been developed into the modern constitutional doctrine that the ministry is responsible for the estimates submitted in the Budget.[3] Thus, although the representatives of the people may throw out a government for the expenditure it proposes, they cannot directly substitute other schemes.

Other countries have followed England at long intervals, both in time and in method, as regards the control of expenditure. In the middle of the eighteenth century (1755) Von Justi, the principal Cameralist writer, only reflected the ideas of the time in treating the wealth of the people and the people itself (which was part and parcel of the

[1] *The Plowman's Tale*, in the main an attack on the corrupt practices of the monks, friars, and clergy. Generally included in Chaucer's works, but by an unknown author. In Skeat's *Chaucer*, Vol. VIII., p. xxxi. and p. 168.

[2] Hallam's *Constitutional History*, Vol. III., p. 117; Bastable's *Public Finance*, Bk. V., Ch. I.

[3] Cf. Bastable, *op. cit.*, p. 697.

State) solely from the point of view of the State's revenues.[1] The furthering of the people's well-being was long regarded only as a means to the ends of the State. "*L'état c'est moi*" and "*pauvre royaume pauvre roi*" are concrete expressions of the same idea.

The same process of development may be seen with regard to the management of the industrial domain of the State and of royalties and similar sources of revenue. The old idea was that, as in the case of private estates, the property of the crown should be managed so as to yield a maximum net revenue. If, as generally happened, it was not so well managed, the misfortune was the personal loss of the monarch. The modern idea is that the production of net revenue is altogether of secondary importance. The post-office and, since the fall in silver, the mint, both produce in England a net revenue, but the yield of revenue ought to be considered as purely incidental if not accidental. The present tendency in local finance to look to municipal trading for the relief of rates seems from the point of view of history regressive rather than progressive.

§ 3. *Classification of Public Expenditure.* It might, perhaps, be thought of the nature of a truism to assert that public expenditure ought to be for public purposes; but in expenditure as in taxation the *quid pro quo* principle is sometimes applied. The classification of public expenditure made in Germany,[2] which has recently become popular in America, takes as the principle of division the degree in which the public expenditure is for the common benefit or for the benefit of individuals. The summary given by Professor Plehn[3] may be quoted for the sake of brevity. There are in this scheme four classes of expenditure according to the benefit conferred: —

First, the largest and most important, those which confer a common benefit on all citizens, *e.g.*, defence.

Second, those which confer a special benefit on certain

[1] Cohn, *op. cit.*, § 9. [2] *Ibid.*, § 91.
[3] *Public Finance*, p. 28.

classes that is treated as a common benefit because of the incapacity of those classes, *e.g.*, poor relief.

Third, those which confer both a special benefit on certain persons and a common benefit on all the others, *e.g.*, the administration of justice.

Fourth, those which confer only a special benefit on individuals, *e.g.*, State industries.

It will be found on examination that two distinct ideas are blended in this classification: *first*, the idea of benefit (the *quid*), and, *secondly*, the payment made (the *pro quo*). It is better to take them separately. As regards benefit alone, all these kinds of public expenditure must be held to confer a common benefit or to satisfy a public want as their essential justification, although they also — all of them — incidentally confer special benefits on individuals or classes or localities. Thus defence is placed in the first class because ostensibly it is for the common benefit only; but as a matter of history most wars have been undertaken in the defence of particular places or classes or even individuals. Poor relief is ostensibly for the benefit of the particular individuals concerned; but as a matter of public policy it confers common benefits in the prevention of crime and in the satisfaction of the sense of justice or of charity. Free education manifestly confers special benefits both on the particular children and their particular parents; but, again, the common benefit is so great that by Professor Plehn it is placed in the first class. Finally, as regards class four, which is said to confer only a special benefit on individuals, it may be said that the final cause of all progress in public expenditure has been the abolition of this class. From being the greatest, it has become the least in importance. Public expenditure which does not confer some common benefit or answer some public purpose, ought not to exist in the modern State. This was the position emphatically laid down by Adam Smith, *e.g.*, "The protection of any particular branch of trade is a part of the

general protection of trade, a part therefore of the duty of the executive power." [1] And it may truly be said that the greatest financial reform effected since his time has been the substitution of the principle of common benefit for the benefit of particular places or placemen or "interests."

Even if the particular individuals benefited pay the whole cost of the undertaking, and, to take a still stronger case, even if they pay so much as to give a profit, public management is not justified unless it can be shown that some public interest is subserved.

Before considering this point, however, the second idea in the classification under review may be considered, namely, the payment for the benefit conferred.

Here again it may be objected that the payment ought not to be considered from the point of view of the individual. The penny that is paid for sending a letter to New Zealand does not in any sense represent the benefit to the particular individuals directly interested. The proper basis of classification ought to be the whole amount of revenue obtained by the State in return for the services rendered. On this basis public expenditure may be classified as follows: —

First, expenditure without any direct return by way of revenue, *e.g.*, poor relief; or in extreme cases even with indirect loss, *e.g.*, expenditure on war.

Second, expenditure without direct return, but with indirect benefit to the revenue, *e.g.*, for education, it being supposed that eventually the educated are better taxpayers or cause less expense as paupers or criminals.

Third, expenditure with partial direct return, *e.g.*, education for which fees are received, subsidised railways that pay part of their expense.

Fourth, expenditure that obtains a full return or in extreme cases yields a profit in addition, *e.g.*, the post-office, gas-works, and generally State industries. To what extent

[1] *Wealth of Nations*, Bk. V., Ch. I., Part III.

expenditure of any of these kinds should be undertaken by the State depends on the principles of expenditure recognised by the State in question. These principles have varied greatly from time to time, and still vary, even in democratic States — just as the principles of taxation which determine how the revenue in each case is to be provided have varied from time to time, and still vary from State to State. At this point it is sufficient to notice that it by no means follows that the fourth class of expenditure may be indefinitely increased without injury because it is recouped or even yields a profit. Sometimes the full expense is not properly calculated, the share in various supplementary charges being often omitted, and sometimes the undertaking owes its success to monopoly. In general, if an undertaking is likely to yield a profit, it may be left to joint-stock enterprise. The primary business of the State is to provide for the social wants to which private enterprise is unequal; and in some cases even where ultimate profit is probable, State intervention is necessary to provide the necessary combination, or to secure the undertaking against unfair competition. With the ever increasing complexity of modern societies there will of necessity be an increase in the functions of the State which are beyond the sphere of private effort, and in spite of all economies by delegation and decentralisation there is a danger of the governmental machine being overworked.

As a rule, it may be said that, contrary to the prevailing popular opinion, the principal business of the State is to perform functions that directly do not yield a corresponding revenue. The idea that each particular source of expense should be met by some particular tax is, as a matter of history, mediæval. In general, except in local taxation, like the other "particularities" of the mediæval system, it has been abandoned. And even as regards local taxation, it may be pointed out that the principal reform effected in this century has been in the amalgamation of rates; and the principal reform required is

that local budgets should be instituted after the imperial model.

§ 4. *Other Analogies from Taxation.* Other characteristics of taxation suggest corresponding analogies in expenditure. Corresponding, for example, to the illegitimate *evasion* of taxes we have the illegitimate appropriation of public funds — an enormous evil in former times; whilst to the legitimate evasion of taxes by the process of substitution may be likened the claims for doles and subventions from the treasury or the evasion of the duty of self-support.

All taxes, it has been seen, fall on *persons*, although nominally imposed on things or transactions. The natural correlative might appear, on first inspection, to be that all public expenditure benefits particular persons. Such an inversion, however, is not in conformity with the general characteristics already described. It would rather appear that in public expenditure the benefit to the individual is not the primary consideration. The State must rather be held to spend public money for public objects, and the nature of these objects is determined partly by history and tradition, partly by various political, religious, social, or moral ideas and ideals.[1] It may be argued, of course, that the satisfaction of individuals is the ultimate object, but this position is even less defensible than the *quid pro quo* theory in taxation. We certainly cannot trace out the particular benefits of public expenditure in the same way as we can the particular burdens of taxes. The people who receive the interest on the national debt receive no particular benefit — they would get rather more with equal security from a good railway debenture. The soldiers and sailors would in general gain higher wages in other employments, and ship-builders and makers of armaments are only supposed to receive competition rates of pay. The poor no doubt benefit by relief, and the children of the poor by education, but in both cases the expenditure of

[1] See next chapter.

public money is not so much primarily intended to benefit the particular recipients as to satisfy the public conscience and promote the public good.

On the strict analogy of the definition of taxation the definition of public expenditure may be formulated: —

"Public expenditure is the distribution by the sovereign power of the revenues of the State for the service of the public powers."

The government or certain departments of it may also undertake various public works and institutions which are intended to be more or less self-supporting. So far, however, as they are independent of taxation, the expenditure is not an expenditure of the revenues of the State, and the question is one of municipal trading or management of the industrial domain, or in the last resort of socialism.

CHAPTER XVI.

PRINCIPLES OF PUBLIC EXPENDITURE.

§ 1. *The Principle of Equality: the Utility Basis.* It has been shown in a previous chapter that the principle of equality of taxation "holds in solution" several different conceptions. A similar analysis may be applied in the case of public expenditure.

The simple doctrine of sovereignty as the basis of taxation finds its analogue in expenditure in the position that the State spends its revenues according to the dictates of the sovereign power. The further question, however, at once arises, especially in democratic States with representative governments, What should determine the dictates of the sovereign power? The general answer, as in the case of taxation, is that the money should be used in the manner most conducive to the public interest. It took many centuries to convert this saying from a paradox into a truism.

It may also be argued, pursuing the former line of enquiry, that one great public interest is justice, and that the analogue to equality of sacrifice in taxation is equality of benefit in expenditure. But even as regards taxation, it has been shown that equality of sacrifice, considered as the ultimate basis or test, is open to serious objections, and these objections are far stronger when applied to the converse case of equality of benefit in expenditure. The greater part of public expenditure is for public objects in which no attempt can be made to distribute the benefit amongst individuals, *e.g.*, the cost of defence.

The ideal of *minimum* sacrifice, or disutility, seems much better adapted than equality of sacrifice for conversion

into a maximum of expenditure. The natural analogue, it may be said, to minimum disutility in taxation is *maximum utility* in expenditure. And although the application of the conception is rather formal than material, it may be of service as a regulative idea and as a destroyer of fallacies, especially when expressed with reference to total and marginal utilities. There is no more popular fallacy than to suppose that because some kinds of public expenditure are classed as necessary, therefore they must always rank before those which are only classed as optional. In the concrete, for example, it is argued that the expenditure on the army and navy should only be limited by considerations of efficiency as determined by the military authorities without any regard to other possible modes of expending the money. And similarly through the whole range of public expenditure it is popularly supposed that each case ought to be decided on its own merits, regardless of other conflicting claims.

But just as in taxation—as Mr. Gladstone never wearied in reiterating—every remission or exemption in one place means imposition or addition in another, so also in expenditure what is given to one object is taken from another. Accordingly, the system of expenditure ought always to be viewed as a whole and an adjudication made on conflicting claims, and he is the best master of finance who best understands the relations of the parts to the whole. And although the utilitarian calculus cannot be applied very far, the distinction between total and final utility may often indicate the necessity of checking extravagance in one direction and beginning a necessary expenditure in another. A minimum amount of defence or protection may have assigned to it an infinity utility, but the utility rapidly diminishes, and necessity passes into luxury or display. A point is reached where the statesman must decide whether other public objects have not greater claims, *e.g.*, village asylums for pauper lunatics in place of separate cubicles for soldiers. The ideal of public expenditure on

the utilitarian principle would be attained when the public utility of the marginal expenditure in each case is equal.

The ideal is no doubt unattainable, but it is not unthinkable, and the pursuit of it may lead to important practical results. Without a beacon of this kind, expenditure may be continued in certain directions long after it is justified by changing conditions, and the most necessary reforms may be met with the *non possumus* of passive inertia.

§ 2. *The Principle of Utility in Relation to Rich and Poor.* The most popular application of the utility theory is in favour of increasing the expenditure on the poor and needy. Logically, however, the principle may be applied in favour of diminishing public expenditure on the rich or less needy. From this point of view the idea of making old age pensions universal is absurd; to the poor in very deed, and to the deserving poor in particular, the utility of a moderate pension would be very great; but to those already provided for by children or friends the pension would be a bad substitute for natural charity.

On the same principle there is no reason why education should be free in all cases because in the public interests it is made free in some.

The essential idea of public expenditure, as already insisted on, is that it should be for the public benefit independently of the particular effects on classes or individuals. If, however, through ideas of charity, justice, or expediency the needs of certain classes are met by public expenditure, it follows that the expenditure should diminish and finally cease as the need diminishes and ceases.

The maxim that the State should not do for people what they can do for themselves, may also be supported on the principle under consideration. It may well happen that State aid, which is very useful in extreme cases of poverty, becomes less and less useful as we ascend in the social scale, and finally becomes harmful or mischievous.

§ 3. *The Faculty Theory and Expenditure.* The application of the faculty theory to expenditure gives as the first result that the standard must be objective, not subjective. Such an objective standard is provided in the constitutional rule that the money voted by the popular assembly is appropriated, and can only be applied, to certain specified kinds of expenditure. The taxes that are levied according to faculty are expended according to public requirements, which admit of a definite concrete statement. The apportionment amongst these public requirements is determined by the representative government, which again represents various ideas and various interests.

A parliamentary discussion on the appropriation of supplies, though it does not secure the "equality of final utilities" in public expenditure, ought to give an opportunity for correcting old abuses and for promoting new public functions. Such discussions at the time may appear rather aimless, but the cumulative progress in the Victorian era has been very great.

The faculty theory of expenditure may also be applied (as in the converse case of taxation) to more special problems. Thus, if for various reasons or sentiments it is decided to spend a certain sum for any public purpose, the expenditure of the necessary funds should be so managed as to increase, or at least not lessen, the productive powers of the society. The indirect effects of expenditure may be as important as the indirect effects of taxation. The case of poor relief is obvious and pertinent. But the case of poor relief is exceptional rather than typical. The faculty theory looks to the functions of the State as a whole; the effect on the particular individuals directly concerned is, in general, of relatively small importance. If the voluntary efforts of individuals are unequal to the task of providing various desirable public works or institutions, it is no valid objection to say that public expenditure on those objects would primarily only benefit

some of the richer members of the society, and not the poor. Poor relief may be the first, but it is certainly not the last, duty of the State. There are many departments of scientific research, of historical and statistical inquiry, of æsthetic display, of general culture, which can never be adequately worked by voluntary private effort. The dignity of the crown would be ill supported by payments made for royal appearances at public functions, and in the great spending departments of government the primary object ought to be the efficiency of the public service, and not the comfort or interest of the public servants.[1]

§ 4. *The Social Function of Public Expenditure.* The social and political effects of public expenditure are generally of even greater importance than in the converse case of taxation. The primary object of taxation is to raise revenue; the social effects are indirect and secondary. But the very object of public expenditure is to attain certain social and political ends. The corresponding analogue, however, to this aspect of taxation seems rather to be that in expenditure also there may be indirect and secondary effects which sometimes are considered of more importance than the primary or ostensible object. The ulterior effects may altogether exceed in benefit the immediate results, as in the claim made for free education. In the days when the religious instruction of the people was considered a primary duty of the State, logically and theoretically the ultimate results ought to have given an enormous benefit compared with the initial expenditure. Unfortunately, however, there were also ulterior results of a counteracting tendency. On the whole, it may be said that in public expenditure (as in taxation) great care should be taken to avoid indirect evils, and the hopes placed on indirect benefits should not be exaggerated. These, no doubt, are formal counsels, but they are none the less useful guides for the arrangements of facts; and

[1] The benefit theory of public expenditure has been examined in the previous chapter.

the reference to history shows their vital importance,— witness the indirect effects of public expenditure on the church, the poor, and the privileged classes.

§ 5. *The Principle of Formal Justice.* The principle of formal justice may also be applied to expenditure. If public money is spent on any public object, it should be spent on other objects that are practically similar. The example may be set even by foreign countries, as was observed by Mr. Gladstone in his great budget statement in 1863, — there is a rivalry of nations in armaments and a rivalry in philanthropy. At present the British expenditure on the navy depends on that of foreign countries, — the British navy must be equal to any two foreign navies. Grants of public money ought not to be used to favour specially some particular local area or industry or class on any principle which cannot be extended to similar cases. The Kantian imperative, "Act on a maxim which thou canst will to be law universal," is certainly the golden rule for the exchequer. It must be observed, however, that special benefit may be conferred on one class or area or industry, without infringing this maxim, if thereby the public would benefit — whilst in other cases apparently similar this would not be the case. The actual expenditure of public money for defence no doubt benefits certain districts, *e.g.*, naval ports and military centres, and it benefits, also, certain industries; but such particular benefit is only secondary and conditional. The real object ought to be efficiency in case of war, and not false charity in time of peace.

The great use of the rule is negative: never act on a principle that cannot be extended, *e.g.*, do not give to the Irish cottar what you will not give to the Scottish crofter. It may, however, be admitted that sometimes the State should revert to the mediæval device of making experiments, limited in various ways in time and place.

Much of the public expenditure for local purposes is provided by local taxation. If the benefit, *e.g.*, a public

garden, is purely local, the poorer localities, on this principle, have no claim on the central government or on richer areas for assistance in providing the benefit; but conversely, if the expense is to fulfil a public duty, *e.g.*, compulsory education, such a claim holds good and is generally recognised.

§ 6. *Canon of Certainty.* Public expenditure ought to be definite and certain, and open to public criticism. The appeal to history is decisive, both as to the reality and the importance of this rule. At the end of the reign of James II. the average expenditure of the crown was £1,700,000, and of this amount £90,000 was for "secret service." In the last year of Queen Victoria the vote for the secret service was £30,000 (of which nearly £5000 was not spent), whilst the total expenditure was £107,771,000 (March 31, 1900). At present it is quite possible, as was stated in the debates on the South African war, that more money might be spent with great advantage by the British government on secret service, but the abuses of the old system were so incredibly great that the total abolition would be preferable to the risk of their revival. William III. followed the practice of the Stuarts in clandestine corruption, and induced by secret bribes the leaders of the parliamentary opposition to betray their cause on particular questions. The example of the king was followed by the people, and the speaker of the House of Commons received from the city of London a present of 1000 guineas for his services in carrying a bill through the House. The practice of direct bribery continued, according to Hallam,[1] until the termination of the American war. Apart from the secret-service money, other parts of the civil list were free from all public examination, and placemen and pensioners formed "a very undue proportion" of the House of Commons, and dependents on the favour of government were made its censors and counsellors. The secrecy in respect to public revenue and expenditure that was for-

[1] *Constitutional History*, Vol. III., p. 266.

merly so noticeable, and which has been expelled by the growth of constitutional government, had extremely injurious effects. On the one hand, prodigality and injustice often escaped notice; while on the other hand, fair and legitimate taxation and expense were, through ignorance, frequently regarded as grievances. Publicity and responsibility have been shown by a lengthened experience to be necessary conditions for an efficient administration of finance.[1]

It is beyond the scope of this work to consider the machinery that is adopted in various countries to secure efficient administration and control.[2] It may, however, be observed that the efficiency of the machinery depends in the last resort on the practical wisdom and the incorruptibility (direct and indirect) of the individuals who represent the people.

In practice, also, publicity involves an independent and searching audit. "Of all expedients for the preservation of public property, it is the most simple, ready, and self-acting."[3]

§ 7. *The Canon of Convenience.* The canon of convenience may be best illustrated from the opposite. The local finance of England afforded a striking example, until the recent reforms, of the inconvenience of a multitude of boards spending money for different objects. "The truth is, we have a chaos as regards authorities, a chaos as regards rates, and a worse chaos than all as regards areas."[4]

One great difficulty in the control of expenditure is to reconcile the necessary routine of official practice with the

[1] Bastable's *Public Finance* (2d edition), p. 679.

[2] *Cf.* Bastable, *op. cit.*, Bk. VI.

[3] *Local Government*, by W. Blake Odgers, p. 257. When, in 1879, the *highway* accounts were first brought under the audit, amongst the items disallowed were for expenditure on sparrow-shooting clubs, mole-catching, visits to the theatre, presentation portraits, champagne, plover's eggs, and wedding presents.

[4] Mr. Goschen, April 3, 1871, quoted in Mr. Palgrave's *Local Taxation*, p. 39.

convenience of the public. This difficulty is most serious and noticeable in times of war or other public strain, although at all times the inconvenience associated with red tape is proverbial.

In general, however, the canon of convenience, in the larger sense of the term, may be brought under the canon of economy.

§ 8. *The Canon of Economy. Magnum parsimonia est vectigal* — of which the legend, "For God's sake vectīgal, Mr. Burke,"[1] is an excellent mnemonic — ought to be applied in every budget; parsimony in one direction may avoid taxation in another. The usual practical rules by which economy, in this narrow sense, is attained must, however, be widely extended with the development of the term "economy."

Economy in the means is the natural corollary of equity in the objects of expenditure. The aim ought to be to attain these objects in the most effective manner. Anything that is paid by government beyond what is requisite for efficiency is inequitable; it benefits one class, or rather a few members of one class, at the expense of the public. It is true, no doubt, that there is room in State expenditure also for the economy of high wages, and even in the purchase of materials the dearest may be the cheapest with governments as with individuals; but high wages are only economical in proportion to efficiency, and high prices in proportion to quality. At the present time there is a recrudescence of an old fallacy: that the government ought to set the example of paying high wages — from the lowest to the highest appointments. The idea seems to be that the chief factor in the determination of wages ought to be the benevolence of the employer, and that as the government obtains its funds without any real cost, its benevolence should be so much the greater. Neither supposition will bear analysis. There may occasionally be an

[1] Burke is reported in one of his orations to have said vectīgal, to the horror of Lord North.

element of poor-relief in wages, and occasionally the wage-earners may be said to depend on the rich. But that the benevolence of the rich is the main source of wages, is as false as the twin fallacy that the public revenues are obtained without real cost.

As regards the higher official appointments, where wages are styled salaries, instead of government being expected to give higher rates, lower rates for corresponding services seem more reasonable. All experience shows that government appointments are considered more honourable than corresponding appointments in private businesses. Honour still remains a great part of the reward of all honourable professions — witness law, literature, science, and art. As regards government, some of the highest and most responsible work is unpaid, and in many cases the payment does not cover the incidental expenses imposed by the custom of the office. To replace this public spirit by mercenary motives would be a national loss.

The greater part of public expenditure is for purposes that in the narrow sense are unproductive,[1] and in the largest sense they only yield a far-off interest in the shape of increased taxable capacity. The servants of the king are in some respects economically on the same footing as domestic servants. Their services are not fixed or embodied in vendible commodities; they establish vested interests; their numbers cannot be decreased nor their duties increased without an outcry.

Similarly, as regards the purchase of commodities, it is sometimes thought that the government ought to give more than private people. Economically it ought to give less. It buys in larger quantities, its payments are certain, and its custom is valuable as an advertisement. And if in

[1] For an excellent criticism of the "Smithian" concept of productivity as applied to state expenditure, see Cohn, *op. cit.*, § 515. The use, however, of the adjective "Smithian" as a term of abuse is unhistorical. The idea criticised was not Adam Smith's. Throughout his work Professor Cohn too often quotes "Smithianismus" in place of the real *Wealth of Nations*.

a case of need or of monopoly the State has a right to modify prices in the public interest, so it may also modify them in the interest of its own administration of public affairs. And yet the custom of government's paying extravagant prices is accepted as if it were a law of nature. Take the case of the expropriation of land for public purposes either for direct use by the central or local authorities, or to promote various works that indirectly are of great public advantage. In England the rule seems to be established that all expropriation for public purposes must be considered as involving a practical kind of disagreeable compulsion that must be paid for at extravagant rates. Accordingly, the owners of slums, who ought under adequate sanitary laws to be mulcted in heavy penalties, the speculators who have been holding on in the hope of some pressing public requirement, the urban owners most of whose property will be immensely improved by the expropriation of a part, the country gentleman whose amenity is only disturbed by an invisible railway which raises his rents — in short, every owner of land, who is obliged to sell it for public purposes, is supposed to be entitled to a heavy *pretium affectionis*.

The only conceivable advantage of this inequitable custom is that it imposes a barrier on injudicious state purchase. Not only, however, is a barrier of this kind a very poor defence, but the progress of society in wealth, population, and "culture" of necessity demands a large increase of public expenditure of this kind. These extravagant payments made by the State in the way of compensation weaken rather than strengthen the security of the institution of private property. They encourage the persistence of abuses that otherwise would die a natural or a legal death.[1] Just as the amelioration of the old bankruptcy laws in favour of the debtor improved the general security, so also would the reform of the laws and customs that regulate compensation to vested interests.

[1] See Bk. II., Ch. IV.

The principle of economy may, however, sometimes be applied directly as a check on State enterprise. All unproductive expenditure involves taxation, and all productive expenditure that is to pay its cost must either be a monopoly which so far involves taxation, or it must be conducted like any other business. If private enterprise or voluntary association is sufficient to meet any public want, the government, whether central or local, should generally let it alone. The chance of profit is balanced by the chance of loss, and the simple plan of taxation is preferable to speculation for profit as a method of providing public funds. There will always be a sufficiency of undertakings to exercise the powers of self-government beyond the limits of the most ambitious or philanthropic private association.[1] Let the State keep to its own domain and avoid alike the evils of paternalism and of bureaucracy; and let those who think this counsel a truism refresh their minds with history (*e.g.*, Colbertism).

§ 9. *Other Rules of Expenditure.* A number of subordinate or derivative rules of expenditure may be extracted from the experience of nations and the wisdom of the books on finance, and again the clue afforded by taxation may be followed. Government expenditure should be directed to a comparatively small number of great objects, and not to a multitude of small affairs. A driblet here and there is sure to offend against the canons of equity and economy. Grants in aid tend to be given in response to popular clamour or as rewards for political services, and so far take the place of the ancient pensions and direct bribery of the representatives of the people. It is sometimes said government should do a certain thing because the expense is trifling. A trifling expense, on the contrary, shows, as a rule, that it is no fit matter for governmental action. Trifling expenses ought to be met from the small change of charity, not from the millions of public rev-

[1] See Lord Avebury on the *Growth of Municipal and National Expenditure*, *Statistical Journal*, March, 1901.

enue; if necessary, they should be the occasion not of appeals to government, but to persons.

A good system of expenditure should as far as possible be self-regulating; it should expand (and contract) with the public requirements. With growing wealth and population it is necessary to provide for increasing expenditure, and the various departments should be so constituted as to admit of natural expansion. At the present time this rule ought to be specially applicable in the provision for the naval and military services. Again, contraction of expenditure according to lessened requirements in certain branches is necessary both for economy and substitution. The expenditure also, in the various departments, ought to be accurately estimated. In practice, the normal expenditure should be met from normal revenue. Supplementary votes and extraordinary demands should be avoided as far as possible — otherwise the control of Parliament becomes nominal. It is bad policy if Parliament is only made to sanction expenditure already accomplished. There are no doubt exceptions: *Inter bella silent leges*, as in a commercial crisis the Bank Act is suspended by the Executive.

In the progress of society, moreover, it is necessary to incur new modes of expenditure. No provision of machinery to meet old wants will suffice for the satisfaction of new demands. In many cases, however, the expense ought to be met not by increased taxation, but by substitution. With increase of wealth the increasing demands for education ought to be partially met, at any rate, by diminished demands from the poor; as the education rate rises, the poor rate ought to fall. This also is a counsel of perfection.

Finally, in case of a conflict of rules, if a compromise is impossible, the guidance of the stronger must be accepted. It may be said, for example, of expenditure, with still more force than of taxation, that a considerable degree of inequality is preferable to a small degree of uncertainty; inequality only affects the private interests of particular persons, whilst uncertainty vitiates the whole system of public administration.

CHAPTER XVII.

PRINCIPLES OF LOCAL FINANCE.

§ 1. *Fundamental Agreement of Local and Imperial Finance.* There is no essential difference between local and imperial finance, and the same principles are applicable in both cases. "A rate," says Professor Bastable, "raised by the smallest parish is as much a tax as if it were raised by the Imperial Parliament"; and Mr. Cannan in his excellent monograph[1] on the history of local rates in England is still more emphatic: "The real difficulty is not to find a local tax which is not a rate, but to find any tax which is not local. A New York State tax is local in relation to the United States, and so is a Prussian National tax in relation to the German Empire." Professor Cohn,[2] also, in his account of the historical development of public economy, points out that the microcosm of the modern State first makes its appearance in the German towns of the Middle Ages, and that the fiscal system developed in these towns was afterwards extended to the larger commonwealth of the State; and in particular he observes that the difficulties and struggles of the modern income tax were already being fought out in the economy of the mediæval municipalities, as was also the case in England. Although, however, the same principles are applied to both national (or imperial) and to local finance, there is a difference of emphasis, and there are differences in practical limitations. A large part of local finance is concerned with the provision by the local authorities of various services and "utilities" for which

[1] I am much indebted to this work, especially in the following section.

[2] *Op. cit.*, § 55 *sq.*

payment may be exacted according to the benefit received to a much greater extent than is possible in imperial finance. It is noteworthy, however, that in general, even in this case, the benefit theory is not applicable in all its particularity.

As regards the practical limitations of local finance, they may be deduced from the interpretation of the term "local." From the economic point of view, capital and labour move freely from locality to locality according to the expected reward, but they do not move so freely from nation to nation. It may, then, be assumed provisionally that differential taxation as between "localities" will cause a migration of the taxed subjects where that is possible, and the possibility must be avoided and fixed property taxed.

Again, in every independent State the sovereign power is supreme, and theoretically it can impose any taxes for any purposes. But as regards local authorities, the whole of their power is conceived as delegated from the central authority, and the central authority may reserve to itself certain kinds of taxation and expenditure; and as regards the powers actually intrusted to local authorities all kinds of limitations may be imposed. Accordingly, at the present time,[1] the systems of local finance are not always survivals or even revivals of the past, but they are often entirely new institutions destined to satisfy certain needs for which the devolution of authority has been deemed expedient.

If we take a broad historical survey, we find that various public wants have been met sometimes by the local and sometimes by the national authorities. As regards police, education, and poor relief, for example, there has been a variable distribution of public powers under different conditions, and there has been no steady and continuous progress in one direction.

This distribution of functions between the central and

[1] *Cf.* Bastable, p. 366.

local authorities, though always actually dependent on various historical and geographical conditions, is also the result of the conscious or unconscious application of principles.

The central government, it is obvious, ought to concern itself with public interests of a national character as distinct from interests that vary from place to place.[1] Thus defence and justice are mainly national interests, and lighting and sanitation are mainly local concerns. But apart from the distribution according to objects there is the distribution according to administration or management. From this point of view, certain duties connected with national interests (*e.g.*, defence, justice) may be assigned to the local authorities, and, on the other hand, the State may perform local functions, *e.g.*, enforcing general sanitary regulations. This interchange of functions also brings into prominence the important consideration that between the central government and the "primitive cell" of the ancient township there have always been various other local authorities with powers over different areas, *e.g.*, hundreds, shires, ridings, wapentakes, parishes, boroughs, and districts for all sorts of purposes.

If we were to attempt to condense the history of local government into a sentence, it might be said that in ancient times most government was local, that in the course of progress the central government absorbed much of the old local powers, and that recently, owing mainly to the overburdening of the central authorities, a decentralising movement has begun. Similarly, history shows that local governments at first rested on a widely democratic basis, were afterward limited to privileged and propertied classes, and again in recent years have become still more democratic than in ancient times.

Such generalities are, however, of little value except as a warning not to *a priorise* history according to the

[1] *Local Government*, by W. Blake Odgers (1899), gives an excellent résumé of the whole subject.

theory of evolution. As a matter of fact, in England, before the great reforms instituted by the Local Government Acts of 1888 and 1894, each special need had been met for the most part by creating new and special authorities, with the result that the local government of the country was summarily described as "a chaos of areas, a chaos of authorities, and a chaos of rates."

It falls, however, within the scope of the present chapter only to deal with the purely financial aspects of local government, — as, for example, the methods of taxation and the rules of expenditure, and that only in a general way. A brief historical survey of the salient points in the history of local rates in England will serve to illustrate the difficulty in the application of principles that in theory seem quite simple.

§ 2. *History of Local Rates in England.* Local rates from the earliest times were instituted for two purposes, — namely, local benefits and national duties; but in both cases were of the nature of "taxes."

First, if the burgesses (*circa* Edward I.[1]) wished to repair their walls, bridges, or streets, they had to apply to the king for a grant of murage, pontage, or pavage. The petition came before the royal council in Parliament, and thus the "local rate" was frequently a "parliamentary tax." The king, however, also gave his boroughs the right to tallage themselves; and he frequently sold charters to the richer members, exempting them from the tallages, and thus, as some unknown Gladstone put on record, "threw the burden on the smaller folk to the destruction of the city." These tallages were for the "benefit" of the locality, but they were not in practice levied in proportion to the particular benefit received by the inhabitants.

Secondly, there were, besides, contributions levied in the shape of fines and amercements which were apportioned amongst the rate-payers. Thus, in place of doles from the imperial treasury to the localities, we have "forced gifts"

[1] Pollock and Maitland, *History of English Law*, Vol. I., p. 662.

from the localities to the treasury. "From 1334 onward, the fifteenths and tenths (the national tax on movables) were levied as local rates."[1] It is noteworthy, however, that the principal part of the ordinary revenues of the borough was derived from tolls, including "passage, pontage, lastage, stallage, bothage, ewage, tronage, scavage,"[2] and the like, the idea of a perfectly "free trade" being an unlimited power to tax other people. In a sense, also, these tolls may be regarded as payments for benefits received or services rendered by the borough. And to anticipate a little, it may be observed that Adam Smith[3] thought it was scarce possible to invent a more equitable way of maintaining such works as roads, bridges, etc., than tolls; but in practice, according to an eminent authority, it became "the most extravagant mode of maintaining roads which the ingenuity of man or fiend could devise."

The benefit theory was more directly applied in the case of drainage, prevention of floods, and the like. In the case of Romney marsh in 1250, the sea walls were to be repaired according to the quantity of lands and tenements subject to the perils of the sea; and a little later the repairs were allotted not merely according to the number, but the value of the acres protected.

The church-rates, *e.g.*, for the repair of the church, which were well established by the beginning of the fourteenth century, were levied according to ability simply (the benefit to the payers not being measurable), and the ability was shown by the value of lands and stock.

In some cases also equal poll taxes were levied for local expenses. The poll taxes were occasionally graduated according to classes and social ranks; but by the fifteenth century the rates were generally apportioned according to each man's ability and substance, generally as evidenced

[1] Cannan, p. 13.
[2] Pollock and Maitland, Vol. I., p. 664.
[3] Bk. V., Ch. I., Pt. III., Art. I.

by the occupation of lands and houses. In the fourteenth, and even as late as the sixteenth century, however, it is never "things," but always "persons," that were supposed to pay rates and taxes. But in the rural districts, the relative abilities of the taxpayers were naturally assessed according to the number or value of their acres and their stock (cattle and sheep); and in the towns, a natural objective measure of abilities was afforded by the size or the value of the houses occupied. When these methods of measuring ability had become customary, by a natural transition it came to be thought that the lands and houses alone were taxed.

Three important consequences followed: *first*, persons were taxed *qua* their lands and houses, though they themselves were resident in another taxing area; *secondly*, other forms of property and sources of income came to be exempt from taxation; *thirdly*, if the occupier of certain lands or houses were taxed, it was considered inequitable that the same lands and houses should be taxed again. Thus though the lands occupied were supposed to indicate the profits (and thus the ability) of the farmer, they were not supposed also to indicate the rents (or the ability) of the landlord. Possibly it was thought there was a transfer of the burden from the occupier to the owner, more probably the fallacy was adopted that "things" and not "persons" were taxed, and that the same "thing" ought not to be taxed twice. It is, however, quite clear on reflection that the use of the same thing might indicate the faculty of a number of users; and, as regards the case in point, the present income tax assumes that, on the average, farmers' profits bear a certain proportion to rent, though the incomes of landlord and farmer are quite distinct, and both pay the tax. In certain cases, however, it became clear that it was the owner of the property and not the occupier who gained most by permanent or quasi-permanent improvements; and not only were the owners compelled to contribute, but the tenants were allowed to

deduct the owner's share from their rents, "all contracts to the contrary, past, present, and to come, being declared void."[1] In other cases, when "contracting out" was not prohibited, deductions from rent were allowed (*e.g.*, for repairing streets) if no such contracts existed.

In brief, from the earliest times, two principles of rating were recognized; namely, benefit received and ability to pay. If the benefit were quasi-permanent, the owner of the property was rated in proportion to its value, and if the expenditure were recurrent, the occupier was rated. When ability was taken as the standard, in principle, personal property was also liable, and, in principle, an elementary theory of equality of sacrifice was recognised. But the practical difficulties proved too great to carry out the theory in its elegance; personal property proved elusive, and the measurement of sacrifice illusory.

The history of the poor-rates, which eventually became the model of all rates, brings out very clearly the recognition of principles and the difficulties of practice. To begin with, there was the idea that charity ought to be voluntary, or, at most, the result of ecclesiastical persuasion;[2] but when, owing to various causes, the poor and their poverty increased, compulsory payments were exacted. Here, again, the idea was that the compulsion should be according to ability, and the ability was understood to refer to all forms of wealth and income. The great act of 1601 directs that the overseers are to raise the money "by taxation of every *inhabitant*, parson, vicar, and *other*, and of every occupier of lands, houses, tithes impropriate, or proprietors of tithes, coal mines, or salable underwoods." The phraseology is suggestive of an income tax, but difficulty at once arose when an inhabitant was peripatetic, or an absentee, or a householder divided. Practical expediency overcame theory, and the "things" and not the per-

[1] Cannan, p. 36, on the case of Scarborough pier.

[2] See the account of the Poor Laws given above, Bk. II., Ch. XII., § 7.

sons were made the basis of assessment,—and not all things, but, in the end, lands and houses. The local income tax, from the force of circumstances, degenerated into the rate on the occupier.[1] It was, however, not till 1840 that an act was passed to "exempt stock-in-trade from being rated for the relief of the poor," and, in fact, as Mr. Cannan observes, this act amounts to a repeal of the statute of Elizabeth so far as the word "inhabitant" is concerned. If, as regards the leading idea of the act of 1601, custom had overcome law, in another respect law had overcome common sense. The special mention of coals and salable underwoods was held to exclude other mines and woods, and this legal exemption was not got rid of till 1874, and thus, at last, "the poor-rate came to apply to all immovable and to no movable property."

As already indicated, in process of time, "as the result of the practice of the local authorities, the decisions of courts of law, and the enactments of Parliament, the whole of local rates with trifling exceptions have become little but additions to the poor-rate."[2] But a curious anomaly, or rather contradiction, has emerged.[3] It is only by an economic fiction that the payers of poor-rates can be supposed to benefit in proportion to their payments; and in all cases analogous to poor relief, the idea of benefit is out of place. On the other hand, there are cases (*e.g.*, repairs and improvements of streets) in which not only the benefit to the adjacent property is prominent, and the ability of the inhabitants irrelevant, but originally the burden was imposed on such property. To use the same basis of assessment for cases essentially different is plainly illogical; payment according to ability, for public expenditure in which very often the benefit varies inversely as the payment, is a totally different thing from payment by which property is specially benefited.

[1] The details of the process and an account of ratable survivals are graphically presented in Ch. IV. of Mr. Cannan's essay.

[2] Cannan, p. 102.

[3] See note on next page.

In theory, also, ability should be estimated by income from whatever sources, whilst benefit should be measured by value received. Practically, however, local income taxes proved to be impossible, and the precise measurement of benefit was also impossible the more the service rendered came to be of a public character. Notwithstanding the "incompatibility of canons,"[1] when allowance is made for their ultimate incidence, the rates imposed on real property furnish, on the average, a fairer test of ability, and also a fairer test of benefit than might be expected. As a rule, the occupiers and the owners of highly rented property have large incomes (and conversely), and they also receive large benefits (and conversely of the smaller folk and their properties). There are of course exceptions, though not so great in ultimate as in primary incidence. In the course of progress the tendency has been to remove the expenses which ought to be borne in proportion to ability from the sphere of local taxation. They have been spread over wider areas, *e.g.*, unions and districts, and at last over the whole kingdom. There have also been grants in aid of local expenditure for general purposes.[2] And as already shown, even as regards the whole kingdom (not to speak of the empire) taxation according to ability is an ideal to which only rough approximations are made. The benefit theory, also, even in the most narrow local expenditure, is also an ideal very roughly realised in practice, as is shown in the provision of water, the removal of sewage, the lighting of streets, the payment of police, etc. The great use of ideals, however, is to remove glaring anomalies, and not to provide a series of revolutions.

[1] Cf. *Memoranda on Imperial and Local Taxes* (1900), p. 53, on the incompatibility of the canons of benefit and ability.

[2] This is well illustrated by the growth of expenditure in education. Thus in England and Wales, in 1881, the amount raised by rates was £1,500,000, and the amount from fees £370,000, that is, about one-quarter. In 1875 school fees had fallen to £74,053, whilst the total expenditure (apart from loans) was £6,802,531, of which about half was raised from rates and half received from the central government.

§ 3. *The Incidence of Rates.*[1] The incidence of local rates has already been considered[2] in the illustration of general principles, *e.g.*, the house tax and taxes on land and rent. Here it need only be observed that: *First*, the primary incidence must be distinguished from the ultimate incidence. Thus rates on shops, although paid by the shop-keepers in the first instance, will be mainly transferred to the owners of the property, though partly in exceptional cases to the consumers of the articles sold. *Secondly*, any change in taxation will fall on the occupier during the currency of his lease unless legal transfer is provided. *Thirdly*, in any case there is always some difficulty in the transfer, and the tax tends to lie where it first falls.

§ 4. *Principles of Local Expenditure.* In expenditure as in taxation the same principles are applicable in the case of "localities" as in "countries" or empires. Here also, however, there are special differences according to objects and methods.

Some of the earliest forms of local expenditure may be described as of the nature of compulsory coöperation for the benefit of the coöperators; and throughout local finance, as already shown, the benefit theory is applied to a much greater extent than is possible with kingdoms, empires, or republics.

A local authority primarily instituted for one set of purposes may have assigned to it other duties. Recently municipal authorities have embarked on various forms of trading enterprise, and even speculation. Some of these concerns, when allowance is made for all the supplementary charges and for insurance against future loss or depreciation, do not really pay their expenses, and ultimately involve an increase of the rates. Thus we have in disguise a recrudescence of the practice of taxation by private persons for private purposes. Even when the undertaking

[1] *The Memoranda on the Classification and Incidence of Imperial and Local Taxes* is a storehouse of facts and opinions on this subject.

[2] See above, Ch. XI.

is self-supporting and yields a profit, it must be considered how much of the payments received for the services are due to a complete or partial monopoly; which again, on analysis, may involve private taxation; and in any case the amount of profit is only one element in the public interest.

The canon of economy is of special importance in local finance. Local authorities are more subject to the malign influence of private interests and to sanguine estimates as regards reproductive outlay. They are also even more ready than the central government to resort to the easy method of public debts. On the other hand, local authorities may exercise a more diligent supervision, and rates are fortunately more unpopular than taxes. The increase of local expenditure in recent years is the best comment on the need for economy. The ratable property of England and Wales is no doubt increasing rapidly, but in spite of this increase the rate per pound is increasing. Taking an average in 1891–1892, the rate per pound was 3*s.* 5*d*, in 1895–1896 it had risen to 4*s.* 5*d.* Again as regards indebtedness in 1875, the local debt of England and Wales was £92,180,000, in 1896 it was £243,209,862. It is true most of this debt is supposed to be paid off in certain periods of years, but (as with the old sinking fund) new debts are incurred faster than the old are paid off.[1]

It seems hopeless to rely on the judgment and restraint of the local authorities, and the only effective check seems to be more thorough and severe control from above, and in particular by an increase of the powers of the local government board as regards methods of preparing annual budgets, audit of accounts, and limitations of borrowing powers.

§ 5. *The Unity of Local and Imperial Finance.* It was stated at the beginning of this chapter that the same principles were applicable in local as in imperial finance.

[1] The property of local bodies may also be considered as a set-off against debt, though its adequacy may be questioned.

As a matter of fact, however, this application of principles remains a counsel of perfection as regards each system severally, and still more as regards the two conjoined. No attempt is made in the United Kingdom, for example, to make any allowance for variations in rates in imposing taxes; the income tax is levied independently of local rates, and local rates receive no proportionate subvention from the proceeds of the income tax. Thus the principle of equality of taxation is violated. Nor is this violation much mitigated by benefit received or by grants in aid or by assignment of certain revenues. One of the greatest financial problems of the future is the redistribution of local and imperial revenues, whether as regards collection or expenditure.[1, 2]

[1] See the detailed account of the various subventions in relief of local taxation in the United Kingdom in the *Memoranda* referred to above. Appendix III., p. 58.

[2] The *Final Report of the Royal Commission on Local Taxation* (1901 —[C. R. 638]) has appeared too late for use in the text. The present system of grants and assigned revenues is carefully explained. The anomalies are so great that three of the Commissioners, Lord Balfour, Sir G. Hamilton, and Sir G. Murray, in a very able separate report, would make a clean sweep of the whole system. They would substitute for the system of assigned revenues a fixed charge on the consolidated fund, and in the distribution they would have regard to the necessity and the ability of the various localities.

CHAPTER XVIII.

PUBLIC CREDIT AND PUBLIC DEBTS.

§ 1. *Public Credit and Private Credit: English Historical Survey.* Both theoretically and historically public credit may be regarded as a development of private credit. For purposes of illustration here, also, the case of England may be taken as fairly representative. In the mediæval period "the king was, both in theory and in practice, the financier of the nation,"[1] and if he had to provide security for a loan, he did so upon his own personal credit: sometimes he pawned his jewels, sometimes his Jews, sometimes his customs, sometimes his friends. The mixture of public and private economy is well illustrated by the fact that in the time of Edward I. the outlay on the army and navy was registered in the rolls of the king's wardrobe. The crown of England and the royal jewels were more than once pawned, and it is recorded that in 1340 the Archbishop of Canterbury was arrested as a surety for the king's debts, and on one occasion the king himself was detained at Brussels very much like a prisoner.[2] The mediæval kings also levied forced loans from the towns and the clergy,[3] and very often these loans were repaid, though Edward III. "did not pay his debts." But even at this early stage the nation was expected to pay the king's debts, and the great mischiefs that would have arisen from repudiation com-

[1] Stubbs, *Constitutional History*, Vol. II., 529 *seq.*

[2] *Ibid.*, p. 532.

[3] In the fourteenth century the clerical "tenth" yielded £20,000, a fourth part of the ordinary royal revenue. See also Macpherson, *Annals of Commerce*, Vol. I., p. 588.

pelled the parliaments to submit (Stubbs), and incidentally led to greater parliamentary control. The essence also of all these transactions was the anticipation of revenue; which is indeed the essence of all public debts incurred on a sound basis.[1] Henry VII., by avarice and extortion, left a treasure of nearly two millions sterling, but Henry VIII. very easily replaced it with a debt. Elizabeth paid off the debt, but for her own purposes was obliged to resort to foreign money lenders, and pay interest sometimes at 12 per cent. The Stuarts *inter alia* succeeded in destroying the personal credit of the monarch, and the origin of the present national debt is generally ascribed to a floating debt of Charles II. (to give a gentle name to misappropriation of other people's money), which eventually obtained parliamentary recognition. In 1692 an act was passed to raise a million pounds sterling on the security of certain taxes, the loan to be repaid by terminable annuities. The funded debt is first mentioned in 1694, when the Bank of England was founded to advance its capital to government at 8 per cent.

Anticipation of revenues from taxes, and the sale of annuities, made more attractive by the introduction of the gambling element in the form of lotteries and tontines,[2] remained the staple methods of public credit during the eighteenth century. In the early part of the century the security was considered bad, and the interest was high, but by the middle of the century the 3 per cent stock was generally at par, and sometimes above.

The enormous increase of the debt, owing first to the American war and later to the great French war, was naturally accompanied by a rise in the rate of interest or, what is the same thing, a fall in the price of the issues

[1] Adams, *Finance*, p. 526.

[2] The last holder of a tontine died in 1870. See John B. Martin's *Grasshopper in Lombard Street*. On an original investment of £100 in 1777, at his birth, in the last year of his life this survivor of the fittest annuitant received nearly £8000 income.

of the stock. From 1793 to 1801 the 3 per cent stock was issued on the average at £57 7*s*. 6*d*. per £100 stock, and from 1803 to the termination of the war the average price of issue was £60 7*s*. 6*d*.[1] On January 5, 1816, the nominal capital of the national debt was £885,186,123, and the annual charge was £32,457,441. It is worth observing that compared with the population of the United Kingdom the capital amounted to £44 5*s*. per head and the annual charge to £1 12*s*. Before the South African War the value per head of the nominal capital was about £15 13*s*., and the annual charge (including sinking fund) about 12*s*. 5*d*. Thus, even if the wealth had only increased in proportion, the present burden per head would be only about one-third, but the wealth of the nation has increased probably threefold at least per head.[2] A reference to the whole course of history down to the recent South African War shows that the great cause of the growth of the national debt has been war, though but for the recent great increase of public expenditure in other directions the rate of repayment would have been much more rapid. Prussia is almost the only country in which a considerable part of the national debt has been incurred for reproductive purposes, a net gain of over five and a half millions sterling per annum being realised from the State railways.[3] In most countries,[4] as in Britain, debt and war run together, and in recent years, owing to the development both of war and credit, the concurrence is more marked than formerly.

§ 2. *The Development of Public Credit: Theoretical Survey.* Although public credit is essentially the same

[1] For further details and a criticism of the "sinking fund" methods, see Porter's *Progress of the Nation*, p. 485, and Noble's *National Finance*, p. 5.

[2] See Giffen's *Growth of Capital*, p. 110. In 1822 property per head was £120, in 1885 £270, and there has been a great rise since.

[3] Bastable, 206.

[4] *Cf.* Cohn, §§ 470–494 for other countries.

as private credit, it differs in two characteristics, which are sometimes of great importance.[1] *First*, the State, relatively to individuals, has supreme power, and thus may make forced loans — the State may command where the private person must beg. This superior power of the State, however, puts public credit in its early stages at a relative disadvantage. The element of force is a hindrance, and the hindrance is only overcome by the exaction of pledges. These pledges (even the crown and jewels of the monarch) are at first actually put in the hands of the creditor, and the next step in development is when a right to claim is substituted for actual possession. Little by little this right to particular pledges gives way to this assignment of particular sources of revenue for the payment of interest and the redemption of the principal; and, for greater security, the taxes or revenues may be farmed out to the creditor.

Gradually, however, the obligation of the State is accepted, and, finally, there is no mention of any particular source of revenue. The State borrows, so to speak, on its personal security.

It is recognised ultimately that the consequences of repudiation are so serious to the nation at large that any possible taxation is submitted to rather than run this risk; and thus the credit of the State rests on the whole resources of the nation, although there is no definite assignment of any particular portion. Thus, the sovereign power, which at first is a source of weakness in contracting loans, is in the end a source of strength.

The *second* characteristic of the public credit is its relative permanence: individuals pass away, but the State is supposed to endure forever; it is the greatest of all corporations. This relative permanence, again, is at first a source of weakness. Public debts, to begin with, are incurred on special emergencies for short periods. It is difficult to borrow for distant objects and for lengthened

[1] Cohn, §§ 495–501.

periods, and yet the permanence of the State renders borrowing under these conditions desirable. In the end, however, this permanence also becomes a source of strength: the State is enabled to borrow not simply at emergency rates, but with regard to the future course of the rate of interest. The terms of a debt contract[1] are three in number: the amount of the debt, the time of repayment, and the interest. Under early conditions the time was short, the interest was high, and the amount to be repaid was the amount borrowed. Under modern conditions the State may fix its own time for repayment, it may offer its loans at a discount or at a premium, and the price it pays will depend simply on the rate of interest as determined by the present and anticipated conditions of the money market. Thus, supposing the credit of the State is perfect (as at present in the United Kingdom), the loans can be placed on the cheapest possible terms and in the manner thought most convenient to the State. In former times public debts were often incurred on more onerous terms than private mortgages.

§ 3. *Modern Uses of Public Loans.* The development of the power of the State in contracting loans has naturally been accompanied by an increase in the exercise of the power. Under modern conditions loans are incurred for three purposes.[2] In the *first* place, temporary loans may be used to cover casual deficits. It is clear that the revenue will not always precisely correspond to the estimates of expenditure nor the expenditure to the estimates, and, accordingly, the State must either borrow, in case of a temporary deficit, or else make the estimates of expenditure so high as to fall short of the smallest probable revenue. This alternative brings to light the controversy between financing on a surplus and on a deficit.[3] The

[1] *Cf.* Adams, *Finance*, p. 550.

[2] Adams, *Public Debts*, Part I., Ch. V.

[3] Bastable, p. 567, approves of a moderate surplus; Adams, *Public Debts*, p. 80, of a moderate deficit.

principal consideration is, that surplus financing encourages extravagance, and moderate deficit financing economy. The surpluses of the United States after the Civil War offer the most remarkable illustration of the dangers of extravagance, and in the United Kingdom the surpluses of the last five years have no doubt encouraged the growth of ordinary expenditure.

On the other hand, continual deficits lead to a large floating debt, which is not properly under parliamentary control and must eventually be funded; and it is against good economy to incur permanent debt in this casual manner. There can be no doubt that the more nearly the ordinary revenue and expenditure can be estimated and provided for, so much the better; and the question as to whether the turn of the scale should be in favour of a deficit or a surplus is of minor importance.

Secondly, the occurrence of a great and unexpected emergency, especially through the outbreak of war, is historically and actually the principal cause of modern increase of debt. In this case, it may be said, borrowing is the only resource. The national credit takes the place of the king's treasure. Taxation to be effective needs time, and the limits of possible or beneficial taxation are soon reached compared with the expenses of modern wars. How much present taxes should be increased and to what extent new taxes should be levied, or, alternatively, how far resort should be made to debt, depends on a series of complex considerations. A just war (and all wars at the time profess to be just) is waged in the permanent interests of the State, and therefore part at any rate of the charge should be thrown on future generations. But apart from this consideration, taxation beyond a certain point injures the productive powers of the State, and thus injures future generations more than would the obligations of a loan. Indeed, in the last resort, excessive taxation will become unproductive, and the nation will be obliged to borrow, and thus will suffer from both evils.

Regard must also be paid to the probable increase (or decrease) of revenue in the future. With wealth and population rapidly growing, a greater charge may fairly be left to the future. Under present conditions, however, throughout the world, and especially in the United Kingdom, there is no need to emphasise the possibilities of the future, which are already heavily mortgaged. Mr. Gladstone desired to carry through the Crimean War without loans, — it is true that he failed, — but no one has even proposed such heroic self-sacrifice in the South African War.

The *third* great cause of public debts is on account of public works and institutions. These again may be divided into two great groups, — productive and unproductive. If the works are strictly productive, the corresponding debts may even yield a net revenue instead of imposing a burden, as in the famous case of the nationalisation of the Prussian railways. In general, however, as already explained, the real net yield of revenue is exaggerated, and in any case it is of subordinate importance compared with the relative benefits of public administration or individual enterprise. At present local governments of all kinds are much attracted by the glamour of productive expenditure, and municipal socialism is the practical form in which State socialism is most favoured.

As regards so-called unproductive expenditure, it must be remembered that the terms "productive" and "unproductive" carry no ethical judgment. Productive expenditure in the narrowest sense of yielding money profit may be ethically indefensible, *e.g.*, State lotteries, and sales of offices and honours which at one time were universal; whilst unproductive expenditure involving an immediate monetary loss may represent the highest functions of the State, *e.g.*, poor relief and education. Even after making full allowance for the indirect economic effects of various forms of public expenditure (especially on education), there is left over in every modern State a large amount of

expenditure which is unproductive. But all that is conveyed by the use of the term "unproductive" is that the result does not admit of pecuniary measurement. And it may be observed that according to the older presumption any industrial undertaking that is likely to yield a profit may be left to private or joint-stock enterprise, whilst the principal cases for State interference are precisely those in which there is not sufficient expenditure of profit to encourage private speculation.

The larger question here involved leads again to the controversy between socialism and individualism, and cannot be treated merely in passing. For the present purpose the point is that all unproductive expenditure which does not indirectly increase the economic faculties of a nation must in the end involve increased taxation. All debt is an anticipation of revenue; and if the revenue is not obtained from production, it must be obtained from taxation. Accordingly, loans proposed for social benefit must always submit to two tests: *First*, Is State management necessary? Has voluntary association failed? *Secondly*, Is the object worth the cost in taxation? And how does it stand in the competition with other social objects?

§ 4. *The Economy of Public Debts.* There are several questions that arise in connection with public debts which are of great practical importance, but in which the difficulties are partly actuarial and partly dependent on the circumstances of the time.

The fallacy of keeping up a nominal sinking fund to be continually inflated by compound interest, whilst in reality greater additions are made to the debt, has often been exposed, and certainly needs no commentary at a time when the repayment of debt has been curtailed during a period of profound peace and surprising surpluses. The classical example of the sinking fund is provided by England at the time of the great French war; not only was the capital of the debt vastly increased through simultaneous redemption and borrowing, but it has been calcu-

lated also that the annual charge imposed by the use of the sinking fund during the period 1794–1816 was over £550,000.[1]

Compensations for this loss are said to be found in the exercise of the patriotic resolve of Parliament to pay off debt,[2] and in the greater confidence of the public creditors as regards new issues; but they are of doubtful value whether monetary or ethical.

The method of perpetual annuities has followed the method of the sinking fund. An annuity is a definite annual payment, and of course the amount cannot be reduced, *e.g.*, most English railway debentures are in effect perpetual annuities. But the real burden (*i.e.*, the interest charge) of a nominal capital sum may be reduced by conversion, if the rate of interest falls owing to the conditions of the money market, or if there is a rise in the credit of the particular State.

Between perpetual and terminable annuities, however, there are endless gradations, and annuities terminable in relatively short periods are still favoured. The time fixed for repayment of the principal and the period during which the guarantee against conversion should be maintained are matters of great importance, but no general solution is possible. A comparatively long period will enable the government to borrow at cheaper rates, but beyond a certain point there is practically little difference. The determination of the best period will depend upon a forecast of the probable movements in the rate of interest and of the further requirements of the government. This latter consideration, however, under modern conditions, is itself only one of the elements affecting the rate of interest.

The rate of interest offered, it is now generally admitted, should be such as to secure the placing of the loan as nearly as possible to par. Of the importance of this rule, the English finance of the great Napoleonic wars provides

[1] Bastable, p. 653.

[2] Lord Rosebery's *Pitt*, p. 83.

a striking illustration and a warning.[1] During this period, debt was created to the amount of £275,000,000 beyond the amount received. "Discount financing," says M. Leroy-Beaulieu, "is the principal cause for the duration of public debts in Europe."

It is no doubt true that the issue of a loan at a discount at a low rate of interest may be cheaper for the time being than an issue at par at a higher rate, because the discount is attractive to borrowers. But the ultimate burden on the State is greater and the immediate saving is small. The only valid reason for this method of borrowing seems to be that advanced by Lord Rosebery in the case of Pitt, viz., that "he had no choice . . . that he had to borrow not in accordance with his own views, but with those of the lenders."[2]

The conversion[3] of a debt must always be a matter of voluntary agreement with the creditors, otherwise it amounts to a partial repudiation.[4] The possibility of conversion depends partly on the conditions of the money market; but partly on the judicious handling of the great monied interests affected, Mr. Goschen succeeded where Mr. Childers failed.

§ 5. *The Repayment of Public Debts.* The expediency of repaying public debt depends on a conflict of arguments, of which the following are the principal. It is argued that the payment of the interest, so long as the debt is held within the country, is only a transfer of wealth from one set of people — the taxpayers — to an-

[1] *Cf.* Bastable, p. 641 ; Adams, *Public Debts*, p. 175 ; Noble, *National Finance*, p. 5.

[2] *Life of Pitt*, p. 210. See also Newmarch, *Statistical Journal*, XVIII., p. 104 *sq.*

[3] See *Conversion and Redemption* (1889), by Sir Edward Hamilton ; Adams, *Public Debts*, Part III, Ch. V., pp. 217-238.

[4] Creditors are usually offered the repayment of the principal or the acceptance of a lower rate of interest. This offer of course does not involve repudiation in any sense, though it may conflict with public expectations.

other set — the fund-holders; or, as is sometimes said, it is the left hand paying the right, and involves no real burden. This argument may be strengthened by the contention that the fund-holders, if they received payment of the principal, would invest the proceeds in similar securities, and would, in reality, be as great a burden on the nation as a whole. The reply[1] is that all taxation involves loss of productive powers both directly and indirectly, and the interest on the debt involves taxation; it cannot be considered a part of the earnings of capital. At the same time, this reply must not be pushed very far, and within the limits of a moderate charge the burden of the interest on the national debt cannot be held to cramp productive power.

It is said that the natural progress of wealth will render repayment more easy in the future. If we were to take the rate of progress of the nineteenth century as normal, then there would be much force in this argument; but a check to the rate of progress is possible, and an increase of expenditure, and consequently of taxation, is probable.

Closely allied to this argument is the assertion that the tendency of the rate of interest is to fall, which is, however, doubtful, over periods of political importance.[2]

It is said that future generations ought to bear their share of national obligations; but the reply is that the present ought also to pay for its own ideas, and the new burdens of the future will probably be sufficient.

In favour of repaying debt in time of peace and prosperity, it may be urged that in case of war or other national emergency, the nation can borrow more easily. Credit is treasure. This is no doubt true relatively, but at the same time the rate of borrowing will depend upon the general conditions of the money markets of the world. The argument founded on the appreciation of gold and

[1] Cf. Adams, *Public Debts*, pp. 243–245.

[2] See above, Bk. IV., Ch. VI.

the increasing burden of debts is not near so popular as it was when the supply of gold was decreasing and trade was suffering from profound depression.

Since debt is, in the last resort, an anticipation of taxes, the essence of the problem always is to compare the burdens of present and future taxes. People, it is urged, become used to a system of taxation, and instead of remitting taxes which it may be difficult to reimpose, the surplus should be devoted to the extinction of debt. The strength of this argument, however, depends entirely on the nature of the tax system and the real burdens imposed on the taxpayer and on the productive powers of the State. There is also the danger that the surpluses will be used for extravagant expenditure instead of for the reduction of debt.

Thus it appears that the question, how far a nation should strive to reduce its debt, and at what rate, admits of no general answer; it is like the question as to the amount of reserve which should be kept by a bank. So long, however, as taxation is considered by the mass of the taxpayers as a burden, and not as a privilege, the accumulation of debt must also be considered as involving a burden, and the benefits of the expenditure must be carefully weighed. At present, however, countries and localities are stepping forward into the morass of debt with a light heart, regardless of future cost and of future demands. When Mr. Gladstone introduced his budget of 1862–1863, his estimated expenditure of £70,000,000 is annotated with the familiar Gallic expletive "[*sensation.*]" The budget statement of 1901–1902, with an estimated ordinary expenditure of nearly double the amount,[1] was received with the apathy of the intimation of a collection in church. The Chancellor of the Exchequer, indeed, repeated his

[1] To the estimate of ordinary expenditure, £127,372,000, must be added the suspension of repayment of debt, £2,000,000, and grants to local authorities, £9,739,000, or in all, £139,000,000. See *Economist*, May 11, 1901.

warnings of five years before, the only result of which, however, as he observed, had been an increase of £34,000,000, or 34.8 per cent in the ordinary expenditure.

§ 6. *Dangers of Excessive Public Debts.* We are accustomed to scoff at the alarm of the eighteenth century financiers over public debts, which appear to us ridiculously small. The prophecy that the nation must destroy the public debt or the public debt will destroy the nation, like all the other pessimistic prophecies of the old economists, has hitherto been falsified. But if it is just criticism to say that Adam Smith was needlessly alarmed at a debt of £130,000,000 and argued from a too limited experience of the possibilities of progress, it is equally just criticism of the present optimism to say that the nineteenth century is as limited as the eighteenth, and is not necessarily typical. It is always possible that the continued increase of public indebtedness may ultimately lead to a revolt of future generations; they may object to pay taxes to which they have never consented, except by a political fiction, and repudiation may appear the lesser of two evils: excessive taxation is a very hot-bed for revolutionary ideas.

CHAPTER XIX.

COLONIES AND DEPENDENCIES.

§ 1. *Early History of British Colonies and Dependencies.* If in any department of economic inquiry British history may be fairly taken as representative, it is surely in the matter of colonies and dependencies. As in the case of other European nations, most of the British colonies were founded, and most of the dependencies acquired, under the influence of political ideas and ideals that would no longer be tolerated. Take first the case of colonies. It might naturally be supposed that the pressure of population and of capital at home gave a stimulus to colonisation, as in the case of the old Greek cities. It was, however, not the overflow of well-being, but of disorder and injustice in Europe which peopled and cultivated America.[1] Religious persecution and political intolerance drove out Puritans, Quakers, Catholics, and Jews to make new settlements. Later on, the transportation of criminals relieved the prisons of the home country and provided the colonial plantations with labour; and if this source of supply was insufficient, it was perhaps only owing to the preference of our lawgivers for capital punishment. From the Restoration to the death of George III. no less than 187 new capital offences were added to the criminal code. One of the greatest of our constitutional writers has said of this period: "The lives of men were sacrificed with a reckless barbarity worthier

[1] See *Wealth of Nations*, Bk. IV., Ch. VII.

of an Eastern despot or African chief than of a Christian state. Life was held cheap compared with property."[1] The colonial labour market was further replenished by kidnapping and so-called apprenticeship and by the importation and rearing of slaves.

Such being the constituent elements of the masses of the governed, we may now glance at the characters of their rulers. "As to the civil officers appointed for America, most of the places in the gift of the crown have been filled with broken members of Parliament, of bad if any principles, *valets de chambre*, electioneering scoundrels, and even livery servants. In one word, America has been made for many years the hospital of England."[2]

As the colonies grew in wealth, the mother country paid them more attention. The most obvious device to obtain a large share of that wealth for itself was to prevent it going to other countries, and an elaborate system was devised for the monopoly of the colonial trade. "The maintenance of the monopoly," said Adam Smith just before the revolt of the American colonies, "has hitherto been the principal, or more properly perhaps the sole end and purpose of the dominion which Great Britain assumes over her colonies."

At the very time when Adam Smith was writing it occurred to some of the most foolish and ignorant of our rulers that it would be an excellent thing to impose taxes on the colonies for imperial purposes; and by the famous duties on tea they succeeded in raising about £300 and in losing the American colonies.

It might naturally be supposed that this sharp lesson would have established, immediately and forever, the principle of non-interference in colonial affairs. But the contrary was the case. The colonies, however popular their institutions, were really governed by British minis-

[1] Erskine May, *Constitutional History*, Vol. III., p. 373.

[2] Letters of General Huske in 1758, cited by Erskine May, Vol. III., p. 362 note.

ters from Downing Street. In crown colonies this power was exercised directly; in the free colonies it was exercised indirectly, through the governors and their councils. Self-government was there in theory, but in practice the governors ruled according to orders from England, and were, in general, able by devious means to command the consent of the local legislators.[1] Very often the interference was more direct. Acts affecting only the internal affairs of the colonies were disallowed by ministers at home. The public lands were considered the property of the crown, and often obnoxious grants were made. Even religious institutions and endowments were regulated from home. One of the greatest abuses was patronage. Infants in the cradle were endowed with colonial appointments, to be executed through life by convenient deputies. Extravagant fees and salaries were granted by England, raised by the colonies, and spent in England. Politicians who consented to exile themselves to the colonies were, in general, those who were wholly unfit for employment at home.

It is not surprising that the first years of the reign of Victoria were marked by a rebellion in Canada. The wonder is that Britain contrived to retain her dominion.

The retention of dominion, indeed, was effected through the abandonment of the powers of irritation and abuse. To Canada, over fifty years ago, and to other free colonies, as they obtained sufficient importance, the principle of responsible government was conceded. It is beyond the sphere of economics to describe the nature and effects of these political concessions or recognitions. Suffice it to say, that the general result is that a colonial constitution has become "the image and reflection of parliamentary government in England." And just as the crown in Britain has gained in popularity what it has lost in nominal power, through the transference of the supreme authority to the representatives of the people, so also the

[1] *Cf.* Erskine May, Vol. III., p. 160.

mother country, by accepting to the full the principles of local self-government, has strengthened and, in many cases, has created the far more real bonds of affection.

With regard to the dependencies, of which India may be taken as the most marvellous example which the world has ever seen, for a long period they also were given over to patronage and plunder and to all the methods of exploitation invented by unfettered companies.[1] But with the transfer of the powers and territories of the old East India Company to the crown came the recognition that the primary duty of the British government was to promote the large human interests of the millions of India, and not the narrow, pecuniary interests of a few British adventurers — great spirits though many of them were.

Thus it would appear that the extraordinary growth of affection on the part of the "possessions" toward the "possessor" during the reign of Victoria is to be ascribed mainly not to the conscious efforts of statesmen to carry out their ideas of "tightening the ties" of connection, but to the fortunate failures of such attempts; they are to be ascribed, not to the strengthening, but to the relaxing of the powers of the central, or imperial, government.

This relaxation is seen especially in the abandonment of the remains of the old system of commercial monopoly.[2] The recent denunciation of the commercial treaties with Belgium and Germany, and the grant to the colonies of essentially coördinate power in making such treaties, may be taken as the final step in the transition from monopoly to freedom. The mother country claims to be included on the "most favoured nation" footing: the colonies cannot discriminate against a foreign State to which the mother country has by treaty granted the "most favoured

[1] See above, Bk. II., Ch. XXIV, § 6.

[2] See the historical survey in Professor J. Davidson's *Commercial Federation and Colonial Trade Policy*, Ch. II.

nation" clause; no colony, by direct or indirect negotiation, is to obtain an advantage at the expense of any other part of the empire, and should it obtain any concession by way of preference from a foreign country the imperial government would endeavour to obtain similar privileges for the rest of the empire. These restrictions seem to constitute a minimum of empire, and weak as they are they are only retained by consent.

§ 2. *The Profit and Loss to the Mother Country of Colonies and Dependencies.* If now, in the light of this broad historical survey, we inquire what is the balance of profit and loss to Great Britain of this immense empire of colonies and dependencies, the answer at first sight does not appear to be very satisfactory, and the popular opinion that "something ought to be done" toward closer union seems plausible.

One after another the possible advantages of empire seem to have been abandoned or to have fallen short of realisation. Consider the question of revenue and expenditure. The great source of expense is found in the navy and army. The larger part of the expense is incurred, not for the defence of Great Britain and Ireland, but for the empire; and though India and the colonies may be called on to meet part of the expenditure for local defence, they contribute practically nothing to the expenses of the imperial government. Again, take the interest on the national debt. This debt is almost entirely due to wars for the maintenance and extension of empire, and not simply for the defence of the home country; but the United Kingdom alone pays the interest and bears the burden.

It is true that the recent war has revealed a surprising depth of filial affection on the part of the colonies and of India, and the former have contributed men and the latter horses and material; but *per contra* the war itself with its enormous expense is a war, in the first place, in the interests of certain colonies, and not in the interests of the

mother country, that is to say, if interest is to be measured by pecuniary gain.[1]

§ 3. *Trade and the Flag.* It may perhaps be thought that though we lose directly by the expense of our fleets and armies, we gain far more indirectly through the extension of our trade. In dealing with this argument two distinct questions must be carefully separated. In the first place, it is undoubtedly true that this country depends for the necessaries of existence — for food and raw materials of manufacture — upon supplies drawn from abroad; and it follows, as was admitted by Cobden, that we ought to keep the supremacy of the sea. But in the second place it is by no means so true that this extension of foreign trade has been due mainly to the extension of empire, and that this extension of empire has increased the security of our foreign trade. A few significant facts will show that if, to some extent, trade follows the flag, to a much greater extent trade pays no regard to flags. Our aggregate trade with foreign countries (including exports of British produce and imports) is nearly three times as great as with our colonies and dependencies; our imports from the United States are greater than the whole of the imports from all the British dominions.[2]

[1] The general argument of the text is supported most emphatically by Mr. Chamberlain, as Colonial Secretary, at the conference of colonial premiers in London in 1897. See *Report of Proceedings*, p. 7 (C—8596):—

"You will find that every war, great or small, during the reign of Victoria, in which we have been engaged, has had at bottom a colonial interest, the interest, that is to say, either of a colony or of a great dependency like India. That is absolutely true, and is likely to remain true to the end of the chapter. If we had no empire, there is no doubt that our military and naval resources would not require to be maintained at anything like the present level."

[2] In 1898 — a normal year — the aggregate trade (imports and exports of British produce) with *foreign* countries was £520,877,107; with British possessions, £182,660,716. In 1898 the imports from the United States were £126,062,155, and from all British possessions, £99,433,995. The total imports were £485,035,583, that is to say, the imports from British possessions were about one-fifth of the whole.

And although recently the colonies have showed signs of giving preferential treatment to the mother country, it is quite clear that free trade within the empire with discriminating duties against foreigners is utterly impossible; the colonial tariffs form one objection that for the time being is practically insuperable, and the relative proportion of colonial to foreign trade is a still more formidable difficulty.

Nor can it be said that our trade is more secure owing to this vast and unwieldy extension of empire. Probably, indeed, the reverse is the case; the United Kingdom, as such, would be stronger with a concentration of empire in places specially adapted for the maintenance of a sea-power.

The other commercial advantages which are supposed to follow from the possession of colonies also become much attenuated when tested by facts. The surplus capital and the surplus labour of this country flow at least as readily to the United States as to any of our colonies. From 1853 to 1898 the total emigration of persons of British or Irish origin was 8,549,569, of whom 5,690,712 went to the United States. The makers of modern empires have lost the Roman art of deportation: the Romans would have subdued the Transvaal with the mountain tribes of India, and civilised India by turning the stream of Irish emigrants from America. But though we have imitated the Romans unconsciously perhaps, but effectively, in the art of amalgamation, — by sparing the weak and warring down the proud, by encouraging also tribal wars, and, generally, by making the Briton a modern Roman citizen, any accidents to whom must be compensated in territory, — we have, perforce, abandoned this simple method of deportation. The colonies long since refused to take our criminals, and they are now drawing the line at our paupers and Asiatics. In brief, our foreign trade and the migration of labour and capital are determined mainly by economic, and not by political

considerations. Labour follows wages; capital follows profits; and neither follows the flag. It is of course possible that if a foreign power acquired India, it would, by prohibitive duties, exclude British goods; but estimated merely by profit and loss, India does not pay the British taxpayer either directly or indirectly.

§ 4. *Imperial Federation.* The only "thorough" scheme for imperial federation ever propounded is that given by Adam Smith in the concluding chapter of the *Wealth of Nations.* It is, moreover, far too thorough for acceptance by the feebler folk of to-day. His scheme was based on imperial taxation throughout the empire, and representation in proportion to taxation. He contemplated the possibility of the transfer of the seat of political power across the Atlantic in little more than a century; and but for the political accidents which occurred as he wrote, the present United States would have been the strongest part of the British Empire, both in wealth and population, that is, so far as the English speaking races are concerned. If, however, the education and political emancipation of the "black man" had advanced in India as in America, and the franchise were not tempered by property qualifications, India would be sending a majority of representatives to the Imperial Parliament; and the logical outcome of Adam Smith's scheme would be that the representatives of the United Kingdom would form less than 10 per cent of the whole.

If federation of this "thorough" kind does not seem very attractive to our insular prejudices, in spite of the euphony of the cry "one man one vote," the federation of the cobweb order that is now becoming popular seems quite as dangerous, in spite of its innocent appearance. The danger lurks in the sentiment that was embalmed in the speech of the colonial secretary to the premiers of the colonies. "It may be that the time has come, and if not I believe it will come, when the colonies will desire to substitute for the slight relationship which at present exists a true

partnership, and in that case they will want their share in the management of the empire, which we like to think is as much theirs as it is ours. But, of course, with the privilege of management and control there will come the obligation and the responsibility. There will come some form of contribution toward the expense for objects which we shall have in common. That, I say, is self-evident, but it is to be borne in mind even in these early stages of the consideration of the subject."[1]

The essence of this proposal is, that in return for a share in the management of the empire the colonies are to contribute a share in the expense. Fortunately, the collective wisdom of the colonial premiers placed on record that the colonies are not yet prepared to pay for this doubtful privilege. The colonies are content with present arrangements — they wish to "manage" their own affairs, and not the affairs of the empire. Nor can it be said that there is any appreciable feeling in this country in favour of transferring part of the burden of our taxes to the colonies, though probably the admission of a few colonial representatives to Parliament (without taxation) would be not unpopular. The idea that the colonies should help to "manage" the empire, and should "pay" for the privilege, may possibly appear to be good economy, but it seems bad in policy and false to history. The celebrations toward the conclusion of the reign of Victoria (1897) revealed a depth of loyalty to the crown which was never excelled in the age of chivalry; the mutual good feeling of the representatives of the various nationalities of the empire seemed to rest more on family affection than on any recognition of material interests, and instead of jealousy and envy, sympathy and confidence reigned supreme. The dissatisfaction that is sometimes expressed with the present state of the management of the empire and the aspirations for closer union do not appear to rest upon any solid basis of discontent or any real grievance

[1] Report of the Conference, p. 6.

or even on any idea of economic advantage, but simply on a *doctrinaire*, or philosophical notion, that the union of the parts ought to be more formal and the constitution more logical. Those who are dissatisfied wish to see a greater display of imperial power and visible contributions of revenues and ships: the power of the unseen eludes their grasp. But it may be objected: in the first place the whole constitution of the British Empire is full of anomalies — simply because the constitution was not made, but grew; because it is the outcome not of one or two philosophical ideas, but of a multitude of historical influences. And the test of the vitality of any growing institution is to be found, not in its accordance with the theories of political philosophers or philosophical politicians, but in its actual working capacity under changing conditions. Tried by this test the constitution of the British Empire is stronger than ever. The colonies, it may be granted, are in an anomalous position; so is the cabinet; so, also, is the crown.

And this leads to the second and greater objection to proposals for federation, in the shape of "tightening the ties" of union. The method of estimating the advantages and privileges of empire in terms of money is altogether inapplicable and fallacious. If Britain had parted with all the territory that did not "pay," she would not have retained in her empire a single colony or dependency, and even Ireland would have been cast adrift; and if the British colonies had forsaken their allegiance because they had no share in the British Parliament equally, also, the empire would have disappeared. The empire has grown in strength because liberty and natural affection have been allowed to displace narrow economic interests. Consider the question of defence. Every year of peace and control strengthens the affection to the empire of the colonies, and makes it more and more impossible for any other power to take our inheritance. We may amuse ourselves by supposing that a combination of hostile fleets

gained possession of the ports of Australia and New Zealand, but we cannot imagine that any combination of powers could govern them against the will of the inhabitants. And in case the independence of the mother country were threatened, the resources of the whole empire would form a last reserve, all the stronger because it rested not on formal treaties or fixed contributions or shares in control, but upon gratitude and affection. Consider even the question of commerce. It is easy to say that free trade within the empire is desirable, and it is to be hoped that in the course of time this ideal will be realised. But this country would not gain if this ideal must be purchased by sacrificing a trade of threefold magnitude with foreign countries, by creating all kinds of local jealousies throughout the empire, and by interfering with systems of taxation which the people who bear the taxes regard as beneficial, or, at any rate, satisfactory.

Thus, on the whole, whether we look back on the slow march of historical realities or forward to the flying shadows of coming events, we find that the strength of the empire lies in the freedom of the constituent nationalities, — freedom, that is to say, in proportion to their political capacities, — and the advantage to the mother country lies in their affection. Instead of seeking to "tighten ties," the ideal should be to enlarge the sympathies; and instead of trying to barter government for revenues, the people of this country should endeavour more and more to govern by consent; and instead of creating new councils and formal dignities in the style of empires in the last stages of decay, they should be content with the sincere homage of imitation by the colonial assemblies.[1]

[1] The article on *Colonies* in Palgrave's Dictionary gives a useful bibliography and résumé. See also Lewis's *Government of Dependencies* (Ed. Lucas), Intro., pp. xliv–lxii, and Chs. VI.–IX.

CHAPTER XX.

THE RELATION OF POLITICAL ECONOMY TO MORALITY AND CHRISTIANITY.

§ 1. *Credo in Unum Deum.* The purely negative attitude hitherto adopted in the present work toward cognate moral and religious enquiries has been criticised and is liable to be misunderstood; limitation is mistaken for denial and toleration for indifference. Accordingly in this concluding chapter I propose to justify the procedure and at the same time to get rid of the misunderstanding by resorting to a simple dogmatic method. I shall indicate, without argument, the connections between economic and moral and religious problems as they are presented to my own mind after this prolonged concentration on economic principles and methods. With every thought and every phrase I find myself in touch with deep feelings and keen intellectual controversies; and although certain great central ideas seem to stand out all the more clearly, I am forced to admit that with other minds it may be different. Thus the previous limitation of the field and the scientific method adopted seem justified.

At the same time, also, the present dogmatic statement of these great central ideas ought to get rid of the misunderstanding, so far at least as the present writer is concerned, that the study of political economy leads to intellectual agnosticism and to moral pessimism. On the contrary the economist also is forced to begin his creed with the expression of belief in the unity of truth and in the reality of moral law: *Credo in unum Deum.*

§ 2. *The Limitations of Economic Methods.* From the standpoint hitherto taken up in this work economic ideas differ from ethical and religious ideas in two respects.

First: The main business of the economist is to describe, classify, and analyse a certain order of social facts, and political economy is treated as a positive science. And although the historical and actual moralities and religions of the world may also be treated from the positive standpoint, such a treatment can only be regarded as preliminary by the moral philosopher and the theologian. The essence of ethics is to lay down the basis of right conduct, and so far as conduct is concerned the essence of religion is to furnish a spiritual basis for morality. The ethical *ought* cannot be derived from the observation of what is, or what has been. All great advances in morality have begun with conflicts with common opinion and practice; what ought to be continually transcends what is; equally as regards the most advanced civilisations and the highest minds of individuals the actual always falls short of the ideal.

Suppose, for example, that it is proved on the best of evidence that economic progress, as measured by the increase of wealth, or more generally of material comfort, has been promoted by the growth of freedom of contract and competition, it does not follow that therefore such freedom ought to be regarded as the ideal of the State; nor, on the other hand, if it could be shown (as the socialists contend) that under present conditions the industrial freedom of individuals retards economic progress, does it follow that such freedom is to be condemned. The deeper questions remain to be answered: What is the moral worth of freedom? What is the moral worth of material comfort? And to these questions political economy regarded as a positive science has no answer. This reflection leads to a second distinction between economic and ethical and religious ideas.

Secondly: The nature of man is not satisfied by material wealth and comfort even in their most extended interpretation. Besides the economic wants there are the moral needs; and just as thirst is not satisfied with bread

nor hunger with water, so also the moral needs of man are not to be satisfied by the acquisition and consumption of wealth. In the primary wants there is no substitution. Solitude is the most awful of all punishments; man cannot live his life without relations with his fellows; that is to say, he cannot live without morality, for life without some kind of morality is madness or imbecility. Morality is a primary want.

Nor can a man choose his morality as he chooses the fashion of a garment. Conformity to custom or public opinion is not enough. Custom and opinion must submit to a higher test. Beyond the moral needs, as determined largely by human sympathies, are the spiritual longings. Man by his nature desires not only to have right dealings with his fellows, but he longs also to be in communion with the spirit of the universe. There is no rest for the spirit of man except in communion with God; and the soul demands from day to day the refreshment of spiritual rest as earnestly as the body demands natural sleep. And thus we are led back to the oldest of all speculative enquiries: How can a man by searching find out God? His reason unaided is plainly inadequate to the task. Let any man who for the moment seems uplifted by his reason to a comprehension of the spirit of the universe consider within himself that all this vaunted reason is lodged in a perishable brain, and let him try to think how the knowledge of the universe can be held by so small a bit of pulp. How can the brain of a man be a call office for all the telephones of the universe?

§ 3. *Christianity and Economics.* But this very helplessness and insignificance of man's reason prepares the way for the message of Christ. "I am the way, the truth, and the life: no man cometh unto the Father but by me." Men only know Christ through his manhood and as much of God and of eternal life as is thereby revealed. The unity of nature is only realised by the union of man with God. Faith in Christ is at the same time as simple

and as inexhaustible as the belief in the uniformity of nature. Faith also implies the unity of all truth. And the essence of Christianity as thus conceived remains as unshaken as the principle of the uniformity of nature by any changes in scientific conceptions or by any modifications of historical criticism.

For rational proof Christianity may also use the inductive methods. It may appeal to the method of agreement: Day by day the risen Christ is revealed to thousands and millions as surely as the risen sun; to the keen intellect and to the simple child, to the strong and to the weak, to the living and to the dying, the message comes: the word is nigh thee even in thy mouth and in thy heart. This simple universality of the Christian faith is one rational test of its truth, the multiplicity and variety of its results is another. Christianity offers itself to continuous experiment and constantly furnishes by the lives of all kinds of men startling examples of the method of difference.

Although we cannot ascend by means of economic or even of moral conceptions to the great truths of Christianity which rest on the personality of Christ, we may reverse the process and descend by these truths to economic and social problems. The Christian religion is a practical religion; it is not only a system of theism which gives the key to the unity of nature and of knowledge, but it is a system of life. The appeal to Christ is the ultimate appeal. It is, moreover, an appeal that must be made with the highest striving of which the soul is capable. The man of science will make no progress by simply appealing to the uniformity of nature, nor the Christian by simply repeating his creed and saying his prayers. It is altogether out of harmony with the idea of Christianity to suppose that every particular individual is to receive in return for his daily prayers a continuous succession of particular miracles; the spiritual life would be choked and the world revert to chaos with such an abundance of signs. Of every Christian prayer 'thy will be done in earth' is the foundation.

But if the particularity of continuous signs and wonders is unreasonable, it is altogether reasonable and indeed necessary to suppose that the teaching of Christ and communion with Christ should be applied to the conduct of life, including the ordinary business of life or what is embraced in economic affairs. I shall try, then, to indicate how the great truths of Christianity may be applied to economic problems.

It may, however, be objected that the history and even the present practice of Christianity reveal such diversities of conduct that no central truths or accepted rules are discoverable. And, indeed, the history of the churches and of Christianity is to a great extent a lamentable history, a record of contentions and hatreds, and the book is not yet closed. The strongest argument and the most popular from time immemorial against Christianity is found in the taunting question: How can people believe in Christ and do these things? To one unversed in theology the reply is suggested that when man becomes Christian he does not also become Christ and God; he remains a feeble, passionate, ignorant man. If we accept the gospels in the traditional form, we find that even his chosen disciples forsook and denied Christ, when he was before them to see with their eyes and touch with their hands, and the air was still filled with the noise of his miracles. If the foundation rock of the Catholic Church became as quicksand, what may be expected of the popes, prelates, and common laymen?

But at this point there emerges another great Christian doctrine: imperfect faith is continually restored by repentance. For every sin and every failure there is a remedy, and thus even through sin itself the spiritual life is renewed. This doctrine, like every other, is liable to degradation, but in its purity it is no more than is implied in Christian hope and humility: humility shows the liability to sin, and hope the way to restoration. And what is true of the individual Christian is true also of the Christian Church.

§ 4. *The Joyousness of Christianity.* It has sometimes been held, both in thought and practice, that the Christian should abandon the world and betake himself to a wilderness to live a purely spiritual life. Such a reading of Christianity seems to discover but a small fragment of truth. Prayer in solitude and steadfast control of the passions may be necessary for the highest exaltation of the spiritual life, but continued solitude and total repression of natural feelings are a species of self-slaughter altogether unchristian. The Son of man came eating and drinking, and his miracles assuaged physical wants and sufferings. And even if the higher criticism of the day has abandoned the matter, it has not abandoned the meaning, of the miracles. The gospel itself was proclaimed as good tidings—that is the very meaning of the message. It is surely strange that of all the doctrines of Christ the one that is most forgotten is that his yoke is easy and his burden is light. Joyousness of heart is the very fruit and bloom of Christian faith. Christ himself made people joyous with food and health, and he commanded the rich to give to the poor, not only sympathy, but material goods. He went about doing good, and one regular accompaniment of this good was the relief of bodily wants. He healed the sick and afterward ordered them to glorify God. The satisfaction of physical wants is not only in accordance with Christian truth, but a great part of Christian conduct is concerned with such satisfaction.

§ 5. *Christianity and the Family.* Again, the teaching of Christ regards the family and the family affections as good. God himself is the Father, and Christ the Son. Little children are blessed and of such is the kingdom of heaven. The first miracle is to give joy to a marriage feast; the last words of Christ commend his mother to John. The Mother of Christ has glorified motherhood to millions; the Madonna is the ideal of purity. And thus the first lesson of Christianity is respect to the family, to women, and to children; for richer, for poorer, the home must be

kept sacred. And here, as throughout, Christianity answers to a fundamental want of human nature — the sacredness of the hearth. But with human beings, as they are, the goodness of family life itself demands a basis of material well-being. Thus it becomes the first duty of every father to provide for his wife and children the elements of decency and comfort. If they ask for bread, will he give them a stone? And, as the world goes, in order to make this provision it is necessary for men to work, and thus labour ranks as a primary Christian duty. Here also a natural want is satisfied; sloth is repugnant to the health of the body and of the soul; the slug on a cabbage stalk is no model for the Christian.

§ 6. *Christianity and Labour.* May the Christian perform any kind of work? May he make money out of any lawful occupation? The answer would appear to be that the Christian ought not to do any work which his conscience condemns or that is likely to degrade himself in his spiritual being, or, what is at least as important, the higher selves of other people. But I take it that it by no means follows that the Christian ought to choose for himself a nice cleanly employment in which he will meet with neither trials nor temptations. On the contrary, the example of Christ and the virtues that are in harmony with his teaching should rather impel the Christian to choose the work in which he is most needed and for which he is best qualified. Take a test case: May a Christian become a soldier? At first sight killing and maiming men seems accursed — a thing to be avoided at the risk of one's own life. But the question arises: Will not war be infinitely worse if left entirely to unbelievers? Has not warfare been softened by even the partial acceptance of Christian principles? Christ himself sought after wretchedness and misery, and where is there greater suffering than on the battlefield and in the track of war? It is not simply by refusing to enlist as a soldier that the Christian will best repress and restrain war, any more than by refus-

ing to become a magistrate he will repress crime. War in the ideal is only part of the administration of justice.

There is, however, a glamour about war, and actual warfare calls for so great virtues, that it seems easy to show that a good soldier ought to be a good Christian, and recorded history gives abundant illustrations. But there are many occupations in the world which are lightened by no glamour and are rather blackened by public contempt — they are the refuge of the outcast and the feeble. Sordid, grimy, and ugly, they seem to make man far lower than the beasts of the field. Can a Christian choose such work? Here and there it may be the choice will be deliberately made, and a devoted Christian man will carry his little lantern where the blackness is deepest. But for the average man the question as put is wrongly put. It should rather be: Can such as feebleness and misfortune, or crimes and sins, have degraded to the lowest social castes — can such become Christians? And then the answer comes back, loud and clear, that it was for such as these that Christ came into the world. And even those who reduce Christ to a man and his miracles to a myth are fain to admit that of all religions Christianity is the religion of the lost; it is the one religion of consolation.[1] But fortunately for human nature and mankind these extreme cases of war and misery do not fairly represent the labour of life. The analysis of labour by the economists has given a sure foundation to the mediæval belief that labour ought to elevate and purify the soul. The work of the world under modern conditions calls for the highest efforts of mind and body. No man works by himself and for himself; at every point there is scope for the exercise of the Christian spirit; laws, customs, regulations,

[1] One of the most striking instances of the practical power of Christianity is afforded by the record of a medical officer of convicts — a layman, Dr. Colin A. Browning, R.N., *The Convict Ship and England's Exiles.* Between 1831 and 1848 he was Surgeon Superintendent of Convict Ships between England and Tasmania.

and manners, need to be Christianised as much as individuals, but it is only by and through individuals that any spiritual advance can be made. The patience of Christianity must be reconciled with faith and hope and courage: "Agayns the horrible sin of *Accidie* [*i.e.* sloth] and the branches of the same there is a virtue that is called *Fortitudo* or Strengthe."[1]

§ 7. *Christianity and the Consumption of Wealth.* The latest analysis of economic consumption may also be used to present a great Christian truth in a new light. The law of diminishing utility (or of satiable wants) shows that the consumption of wealth beyond a certain point gives diminishing satisfaction and finally ends in wretchedness. Thus temperance in all things is good economy, and only a portion of time and of life should be given to the satisfaction of material wants. The Emperor Vitellius is said to have devoured ten thousand pounds' worth of our money in a day's meals. Had he been a Christian, he would have eaten less and enjoyed his meals more. But Christian teaching goes far beyond the prudence of hedonism. In the ranking of wants the physical needs are not the first. Nor is such a position superhuman or extravagant. In most honourable vocations physical comfort and life itself are often considered of secondary importance; men give their lives to ideas; of the idea of duty the duty to oneself is a very small part: "the courage of a soldier," says the great historian[2] of carnage, "is found to be the cheapest and most common quality of human nature."

§ 8. *Christianity and Exchange.* The analysis of exchange reveals a Christian character, and also points to the need for Christian guidance. It is no paradox to say that exchange is reciprocal charity; it blesseth him that gives and him that takes. No man, says Adam Smith, ever saw a dog exchange a bone with another dog. The

[1] "The Parson's Tale," Skeats's *Chaucer*, Vol. IX, p. 616.

[2] Gibbon's *Decline and Fall of the Roman Empire*, Ch. XXVI.

barbaric man is a dog in a manger; he keeps for himself what he cannot use. The opening of markets is the beginning of charity. Exchange is in origin an exchange of gifts, and even to this day every good exchange is also a good gift. The evils of exchange arise when charity and good feeling are absent, and force and fraud simulate the forms of exchange.

There are, moreover, things that ought not to be bought and sold: exchange may be an exchange of sins; in the modern world also the "sin-eater" drives a good trade. In the limitation of exchange Christianity has played a leading part; what shall it profit a man if he gain the whole world and lose his own soul? The money-power is an enormous power. Spending money means demand, demand guides supply, supply calls for labour, and labour is the life of man. Every buyer of evil things is a doer of evil and a breeder of sin. To spend money well is a harder task than to earn money well; in earning the task is generally prescribed, but in spending the spender takes the initiative; it is no longer passive obedience, but a good will, that is required.

§ 9. *Christianity and Property.* The analysis of private property also brings to light the influence and the requirements of Christianity. Labour, effort and enterprise, contract and gift, respect for peace and avoidance of quarrels, such are the economic bases of private property. The right of property viewed from the economic standpoint is a means to an end, and the end is the economic welfare of the State. In economics there is no prescription of institutions, and the prescriptive right of individuals is limited; any form of property that is injurious to the economic activities of the State so far stands condemned. In particular, the laws regulating inheritance and bequest, and the laws governing the appropriation of natural agents, must be regarded as parts of a system, and not as conferring absolute rights on individuals. In economics, still less than in law, are there abso-

lute rights; and in religion the rights of man are the gifts of God.

The development of economic societies has been accompanied by an increasing socialisation of property, alike in its acquisition and in its uses. A man can only acquire wealth with the coöperation of multitudes of his fellows; for himself and by himself man is more helpless than a lost dog.

And a man can only use his wealth — if by use we mean enjoyment — with the coöperation of his fellows.

Of the social conception of property Christianity is the recognised and the strongest advocate. The Christian ascribes his wealth, not only to the coöperation of man and society, but to the coöperation of God himself; and he strives, or ought to strive, to use his wealth for the greater glory of God.

The Christian conception of property may be compared to feudalism, with Christ as the overlord. The Christian becomes Christ's man, and devotes not only his property, but his life and his bravery, to his service. Christianity is the beau ideal of chivalry. But just as the soul of chivalry dies within the forms of heraldry, and just as feudal rights become prescribed and limited by parchments, so also the Christian idea of duty becomes limited by creeds, and what ought to be the full and free gifts of the whole estate and the whole being, degenerate into peppercorn rents paid through an agent. In one respect, however, Christianity differs from feudalism and other human institutions: Christianity, after being shrunken and shrivelled, rises again and again to the full glory of its youth.

Thus it appears that the economic analysis of property, which begins with self-interest, leads up to charity, just as Christian endeavour, that begins with a passionate cry for personal salvation, for eternal life, for self-communion with God, leads up to charity in that wide spiritual meaning in which it is greater than faith and hope.

§ 10. *Christian Charity.* The enquiry in the present book began with the assumption that wealth is distributed through the freedom of competition and of contract of individuals; next the effects of various forms of voluntary associations were examined; and, finally, the advantages and limits of State control and management were considered. The trend of the argument is that the failures and defects of simple individualism may be partially met by voluntary associations; where voluntary association fails the State may to some extent beneficially intervene; in any case a certain measure of government is necessary to preserve the peace and to insure the conditions necessary to the freedom both of individuals and of societies; and thus the State not only contributes to, but is the foundation of, economic welfare. This argument is completed by the position that Christian charity is the foundation both of freedom and of law, and also provides remedies for failures beyond the reach of the natural propensities of mankind or the rational systems of law.

To begin with the simplest case, namely, the giving of material wealth for charitable purposes, the Christian ought to consider himself as holding his property in trust, to make of it the best use possible. Nor is there anything extravagant or emotional in such a view;[1] it is indeed an

[1] *Cf.* Gladstone's *Financial Statements*, p. 430, "What a man wills on his deathbed, when he can no longer keep it in his own hands, is not charity in the same high and sound sense which the word carries when a man gives what it is his own to give and to enjoy." Mr. Andrew Carnegie has followed the spirit of Mr. Gladstone's utterance, though he has not as yet accepted his particular suggestion to build a great cathedral. The deed, creating a trust for the Universities of Scotland, begins: "I, Andrew Carnegie, of New York and of Skibo in the county of Sutherland, having retired from active business and deeming it to be my duty and one of my highest privileges to administer the wealth which has come to me as a trustee on behalf of others, and entertaining the confident belief that one of the best means of discharging that trust is by providing funds for improving and extending the opportunities for scientific study and research in the Universities of Scotland, my native land, . . ." The argument in the text could find no better concrete illustration.

argument that might be advanced by the most serene intellect in the clear air of a mountain top at sunrise. No man has created his property or earned his income solely by his own effort; there are not only the contributions of nature or of God, but there are the contributions of multitudes of individuals and of many societies. It is only common fairness to take account of these contributory agencies, and to direct to charitable purposes what cannot be distributed to the particular individuals and societies concerned. The rough-hewn laws of civilised States permit an exclusive use and abuse of property that is not permitted by the finer touch of Christianity; Christian charity extends far beyond the justice of codes and the expediency of politics; it is mercy that is not strained.

But this idea of good stewardship does not involve an indiscriminate surrender of wealth and the complete abandonment of property. The wealth of any individual compared with the possible claims upon it is relatively very small. There are numbers of excellent charities, all in need of funds, and there are multitudes of individuals who might be benefited by pecuniary assistance. First come, first served, would be an abandonment of the prudence of the good steward for the carelessness of the spendthrift. To give well is the most difficult of tasks, and in the present age it is not so much the duty of giving that needs enforcement, as the methods of giving that need illumination.

Christian charity, moreover, is far wider than mere almsgiving, and the Revised Version does well to adopt the literal translation, "love." In this sense charity is a rule of life, or a test of right living, that is to be applied in every line of conduct. It is the root of honest work, of just saving, of healthy consumption, of fair dealing with others. And when contracts and rules and laws fail, and even when the natural heart of man turns away with repugnance, Christian charity steps in with open hand

and open heart; it brings material help indeed, but it brings also sympathy and good feeling and honour to God.

We are apt to consider the mediæval casuist as the universal provider of excuses for sinners. There was no doubt a degraded casuistry of this kind at a time when even sinners felt the need of excuses. But the true mediæval casuistry was an earnest attempt to moralise economy and to spiritualise morality, and to give the Christian a practical answer to the cases of conscience with which he was troubled. When the reformed Church abandoned the degraded form of casuistry, it abandoned also to a great extent the true idea of which it was the degradation. That idea was to test the ordinary business of life by religious principles. The mediæval theologians were also economists, and they never abandoned the hope and the belief that Christian charity ought to permeate the whole of life. Chaucer's men and women studded the land with churches and shrines; every market place, every guild, every ferry, every town, had its patron saint; at every twist and turn of life a new glimpse of heaven was opened out; the shortest measure of time was the time to say a *pater noster*, the longest the time to build a cathedral; and just as all the people knew the constellations and the wanderings of the planets, so they knew also the lives and vicissitudes of the saints. We moderns leave astronomy to the learned, and the saints have vanished like the stars in the light of common day. It is true, no doubt, that the conditions of modern industry are different and the same detailed rules of conduct are not applicable; but the same spirit — if we still believe in Christ and in Christianity — ought to give new rules. Throughout the whole field of economic enquiry there are truths which can only be developed, and abuses and defects which can only be remedied, by Christian charity in the wide sense of love and mercy which sums up the teaching of Christ. For the welfare of man freedom may do much and law may do much, but alike in

moulding character and in framing laws Christian charity ought to take the place that in the animal world is held by what is now called natural selection.

The answer, however, to the question: What is charity? is as difficult as the answer to the question: What is truth? Perfect charity involves perfect knowledge. The ways of charity, like the ways of truth, are as innumerable as the paths of the sea. And in both the mind of man is driven to one ultimate postulate — to one guiding star. All the paths of truth must lead up to the being of God, and all the paths of charity must lead up to the personality of Christ; and in the faith of the Christian, truth and charity are one, as God and Christ are one.

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